

# The Incorporated Accountants' Journal

The Official Organ of  
The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL is published monthly, on the first day of each month, at an Annual Subscription of 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 3d., postage extra.

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and

Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLVIII

MARCH, 1937

No. 6

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## Professional Notes.

In connection with the financing of Government expenditure for the purpose of the Defence Services, Sir Thomas Inskip, in answer to a question in Parliament as to supervision of tenders, said that where competitive tenders were impossible every tender and contract was subjected to an exhaustive examination by a costing department, and that the costing departments had been recruited by the most competent men who could be found. He thought they had some of the most eminent accountants in the City of London testing the costs by examination of the books of the contractors, and by comparing the tenders with costs based upon the experience of Government establishments.

By the death of Sir William Soulsby last month there has passed away one of the central figures in London's City life. Between 1875 and 1931 Sir William acted as private secretary to 55 Lord Mayors of London. His knowledge of affairs was almost encyclopædic, and he was the trusted servant of every Lord Mayor under whom he served. He has been described as the genius of the Mansion House. It is stated that to the last Sir William wrote all letters with his own hand, in addition to which he kept up an official correspondence with the Press, advised the Lord Mayor, arranged engagements and saw callers, yet never seemed to be hurried. When he resigned his position as Lord Mayor's secretary in 1931 he received an appreciative letter written by Sir Clive Wigram on behalf of King George V, as well as many other honours.

A new German company law entitled "Gesetz über Aktiengesellschaften und Kommanditgesellschaften," is likely to have a far-reaching effect on German joint stock enterprise. The new law comes into operation on October 1st next, and has for one of its main objects the placing of the highest degree of personal responsibility upon those who have the conduct of the company's affairs. The shareholders elect a board of directors, whose chief function is to appoint an executive board to conduct the company's business. The board of directors has no power to interfere with the executive once the appointment is made. The members of the executive are appointed for a five years period, and they can be called upon, not only by the shareholders but also by the creditors, to refund losses arising from mismanagement or through culpable neglect. If any charge is brought against the members of the executive the onus of proof is upon them to show that the charges are unjustified. Should they fail in this they are saddled with personal responsibility. In these circumstances it does not

look as if the position of a member of the executive is particularly attractive.

The new law contains a provision that new companies must have a paid-up capital of at least Rm. 500,000 and existing companies must have a paid-up capital of not less than Rm. 100,000. There are at present numerous companies in Germany with capital under this limit, and those which have not arranged the larger figure by December 31st, 1940, must dissolve.

The question is raised in our correspondence columns this month of the liability to include in profits for Income Tax purposes receipts from claims under consequential loss policies and in that connection the right of the Inland Revenue to reopen assessments of past years. The case of *Rex v. British Columbia Fir and Cedar Lumber Company, Limited* (1932) which our correspondent mentions was decided in accordance with the law of British Columbia, which is not identical with that of this country, but reference was made in that case to certain decisions of the English Courts, including *Green v. Gliksten*, decided in 1929. It was in consequence of the *British Columbia* case that the Inland Revenue Authorities changed their attitude in regard to Loss of Profits Insurance. In the circumstances we think that any attempt by the Inland Revenue Authorities to give retrospective effect to their change of mind should be strongly resisted, especially in circumstances such as those mentioned by our correspondent.

It does not appear to be open to the Authorities to claim that the decision upon which they base their present practice confirms their previous view of the law. Where assessments in respect of past years have become final and conclusive, and no fraud is alleged and there is no element of "discovery," it is difficult to see on what grounds they could successfully claim to reopen the assessments. Under the earlier procedure the Inland Revenue would only allow the premiums on consequential loss policies as a charge against profits for Income Tax purposes provided an undertaking was given to bring in any amounts recovered thereunder. It was therefore open to the taxpayer to adopt one of two alternatives, and in cases where the basis of excluding the premiums has been accepted by the Inland Revenue it seems clear that they are bound to honour the arrangement until such time as it is terminated. In the absence of such termination the reopening of the assessments of past years seems unjustifiable.

At the annual meeting of shareholders of Lloyds Bank, Lord Wardington said he thought it might be better if the names of banks appeared in a less prominent position on prospectuses, as it was always possible for an ignorant member of the public to conclude, if he saw the names of a respectable bank and brokers on a prospectus, that such was a virtual guarantee of the success of the enterprise. At the same time, he said that so far as his bank was concerned the contents of a prospectus appealing for public subscriptions were carefully criticised before the bank allowed its name to appear.

There is set forth in an article appearing in the *Journal of Accountancy*, New York, some of the qualifications of a young man who contemplates entering the accountancy profession. Amongst these are the following: He must have a pleasing personality, a natural aptitude for accounts, common sense, good judgment, the ability to express ideas, particularly in writing, in a simple but thorough manner, and a character of the highest ethical standard. Added to these qualifications he should be prepared to render the best services of which he is capable at all times regardless of his compensation for such services; and he should seek and be prepared to respect the advice of more experienced men on any difficult point, although so far as possible he should also try to fathom the reason for their advice, and not accept it blindly.

A somewhat important question of principle was decided by the Court of Appeal last month in the case of *Reed v. Cattermole (Inspector of Taxes)*. The point at issue was whether the annual value attached to the house in which a Methodist minister lived formed part of the emoluments of his office, and constituted part of his assessable income under Schedule E. The amount which was claimed to be added to his salary consisted of local rates, water rate, and Schedule A Tax paid in respect of the manse in which he resided. A condition of Mr. Reed's appointment was that he should live in the manse, which he did, although it was too large for his needs.

The Master of the Rolls, in dismissing the appeal by the Crown, said the essence of the matter was that Mr. Reed used the manse as a dwelling house for the purpose of his work, and he lived there not for his own convenience but for the purpose of the Methodist Church, and under the compulsory requirements of the Church, whether the manse was suitable for him or not. Lord Justice Romer, in concurring, said the principle to be applied was that which was applicable in the case of master

and servant, where the servant occupied a house, not as part of the remuneration of his services, but for the purpose of performing them.

Once more the difficult question of the distinction between capital and revenue in relation to taxation came before the Courts in the case of the *Greyhound Racing Association (Liverpool), Limited, v. Cooper (Inspector of Taxes)*. The Association was the owner of the lease of a racing track but sustained losses in its trading, with the result that a receiver was appointed on behalf of the debenture holders. The receiver granted a licence to use the track to a racing company which also sustained losses and went into voluntary liquidation. Eventually the receiver agreed to a surrender of the licence provided that a new company to be formed took over the track at an agreed rent and a sum was paid representing the difference between the old and the new rents calculated on an actuarial basis. This sum, which amounted to about £15,000, was subsequently received. The Association claimed that the £15,000 was capital and relied upon the decisions in the cases of *Van den Berghs v. Commissioners of Inland Revenue* and *Mallett v. Staveley Coal Company*.

After reviewing the facts of the case, Mr. Justice Lawrence said it was clear that if the sum in question was received for what was in truth the user of capital assets and not for their realisation, it was a revenue receipt, not capital. His Lordship went on to distinguish the facts in the earlier cases, and said that in his opinion the £15,000 "was nothing more than a lump sum in place of future rents, similar to the payments in question in *Short Brothers, Limited v. Commissioners of Inland Revenue* and similar cases." The appeal was accordingly dismissed.

As the result of an independent audit, a former Borough Treasurer of a small borough in Devonshire has been found guilty of fraudulent conversion of funds of the municipality. For the prosecution it was said that in five years an amount of over £3,000 had been misappropriated, of which about £1,500 had been recovered under a fidelity guarantee. On behalf of the accused it was stated that he was paid a salary of £62 per annum, out of which he had to find office accommodation and pay the premium on a fidelity bond. The borough was such a small one that a penny rate produced only £50.

On April 1st next the Post Office is to issue a new form of money order similar in appearance to a bank cheque. Telegraph money orders will

be red, and postal money orders pale green, and in each case there will be counterfoils which purchasers can detach and retain, as in the case of postal orders at the present time. Another innovation is that the serial numbers of the orders will be perforated so that they can be mechanically sorted for the purpose of auditing.

The issue of the accounts of the Post Office services for the year ended March, 1936, seems somewhat belated, but the results give cause for satisfaction. There is a net surplus for the year of £12,539,000, which is an increase of £594,000 over the surplus for the preceding year. It is also the largest surplus on record. There are increases in practically every department, but the largest increases are those relating to inland telegrams, postal orders, and telephone trunk calls. Local telephone calls and parcels also show a substantial increase.

### COLLECTING BANKER'S LIABILITY.

In the recent case of *Carpenters' Company of the City of London v. British Mutual Banking Company* the High Court delivered an important judgment on the liabilities of collecting bankers in respect of stolen cheques.

A clerk employed by the plaintiff corporation had stolen from the corporation a sum of about £4,000 over a long period of years. His *modus operandi* was extremely simple. As secretary to a Home in which the corporation was interested he had cheques prepared, some of which were payable to people who had supplied the Home with goods, and others of which were payable to imaginary persons. By presenting forged invoices, he induced the proper officers of the corporation to sign these cheques. He then forged the indorsements of the payees and paid the cheques into his own account at the British Mutual Bank.

Curiously enough, this was the bank on which the cheques were drawn. What was more, the accounts of the corporation and of the thieving clerk were kept at the same branch of the bank. It seems astonishing that in such circumstances the frauds escaped detection for a period of approximately fifteen years; but the fact was that they were not discovered till August, 1935, although they had commenced in 1920.

On discovering the frauds, the corporation claimed damages from the bank in respect of the cheques collected during the past six years. Their case was that the bank, as collector of the stolen cheques, had committed a conversion.



The bank pleaded in defence, among other things, that they were protected (a) by sects. 60 and 82 of the Bills of Exchange Act, 1882, and (b) by sect. 19 of the Stamp Act, 1853.

Dealing first with sect. 82 of the Bills of Exchange Act, 1882, the Court pointed out that that section gives protection to the collecting banker only where he receives payment of a crossed cheque for a customer *in good faith and without negligence*. Since the Judge found, as a fact, that the bank had been negligent in collecting the cheques for a person who, they knew, was employed by the drawers of the cheque, the protection given by section 82 could not be pleaded.

There was, however, sect. 19 of the Stamp Act, 1853, which contains the following proviso:—

"Provided that any draft or order drawn upon a banker for a sum of money payable to order on demand which shall, when presented for payment, purport to be endorsed by the person to whom the same shall be drawn payable shall be sufficient authority to such banker to pay the amount of such draft or order to the bearer thereof: and it shall not be incumbent on such banker to prove that such endorsement was made by or under the direction or authority of the person to whom the said draft was or is made payable either by the drawer or any endorser thereof."

This section is very like sect. 60 of the Bills of Exchange Act, 1882, which gives protection to bankers who pay cheques bearing forged endorsements; but the two sections are not identical. Sect. 60 of the Act of 1882 gives its protection only where the banker pays the cheque "in good faith and in the ordinary course of business." No such condition is imposed, it will be noted, by sect. 19 of the Stamp Act.

The defendant bank in the case under consideration pleaded that both these sections gave them protection. In reply, the plaintiff corporation urged (a) that negligence having been proved, sect. 60 did not apply, and (b) that sect. 19 of the Stamp Act had ceased to apply to bills of exchange since the Act of 1882 came into operation.

The Judge, dealing with these points, held that it is possible for a banker to pay cheques "in good faith and in the ordinary course of business" notwithstanding that he is guilty of negligence. He held, moreover, as a fact, that the cheques in question, with one exception, were paid in good faith and in the ordinary course of business. It was argued by the plaintiff corporation that, as the cheques were crossed

and payment had not been made to another banker, the bank had failed to comply with the requirements of sect. 79 of the Bills of Exchange Act, 1882; but, on the authority of *Gordon v. London, City and Midland Bank* (1902), the Judge ruled that this plea was untenable. As regards the plaintiffs' contention that sect. 19 of the Stamp Act, 1853, no longer applied to bills of exchange, the Judge held, on the authority of *Bissell & Co. v. Fox Bros.*, that a banker is still entitled to take advantage of the section.

For these reasons it was decided that the plaintiffs' action could not succeed, as both sect. 60 of the Bills of Exchange Act, 1882, and sect. 19 of the Stamp Act, 1853, gave protection to the banker. It must be noted, however, that in this case liability was avoided by the bank principally by reason of the fact that the bank was both paying and collecting bank. Had the cheques been drawn on another bank, and had negligence still been proved, neither sect. 60 of the Act of 1882 nor sect. 19 of the Act of 1853 would have given protection to the collecting banker.

It is, moreover, an open question whether the position would have been the same had the stolen cheques been drawn on one branch of the bank and collected by another branch. To say the least, it seems anomalous that whereas the drawer of a stolen cheque can sue and obtain damages from a negligent collecting banker with whom he has no contractual relationship, he cannot sue his own banker on the same grounds because of sects. 60 and 19. But anomalous situations are not unknown in law.

## FATIGUE IN INDUSTRY: ITS INCIDENCE AND ELIMINATION.

[CONTRIBUTED.]

INDUSTRIAL efficiency is to a very large extent bound up with the question of fatigue. The amount of fatigue from which a person is suffering may be measured directly by the psychologist. Although these attempts are useful in the laboratory they are not practicable in the office or factory. If fatigue does exist, however, it will manifest itself in some or all of the following ways.

An easily recognisable indication of fatigue is a falling off in output as the day advances, and the rate of decrease in production or work done is a rough measure of the degree of fatigue which exists. Where it is possible to measure the hourly output or the amount of work done per hour, an examination of such records will reveal the extent to which fatigue is present. The accident rate is another indication of the degree to which fatigue exists. Preventable accidents are often due to reduced concentration, loss of tactile control and a general



decrease in the speed of thought and action. When a person is tired his general attitude to his work is less satisfactory, whilst his irritability and nervousness are increased. The cumulative effect of all these is to increase the accident rate. As the output curve falls, the accident curve rises. Thus the accident rate is usually the highest towards the end of the day. The connection between accidents and fatigue has been clearly recognised by the Ministry of Transport, who have made regulations regarding the hours which may be worked by drivers of motor vehicles. A third indication of fatigue is the increase in the amount of spoilt work. Accidents and spoilt work tend to increase together.

It is obvious that the general efficiency of the employee suffers when he is fatigued, and the factory cost of production is thereby increased. A little time spent in investigating the cause of fatigue and methods which would lead to its elimination is therefore well worth while. Naturally each case must be considered on its merits, and a solution which has proved satisfactory in one case may not do so in others. Nevertheless a few general ideas on the subject may prove useful. In the first place, fatigue may be reduced by providing more suitable tools and a better position or arrangement for their use. The provision of tools specially adapted for their purpose may be of great importance. The experience of an American firm in this respect is illuminating. Labourers in a particular works were required to shovel iron ore, ashes and clinkers, and, at first, they all used shovels of the same size. The ore shifters soon got very tired, whilst employees engaged in moving ashes appeared to be working well but not very effectively. A study of the problem showed that the most convenient shovel load, including the weight of the shovel, was 22 lbs. As a result, various sized shovels were adapted to fulfil this requirement in each of the three cases. The effect of this was that 140 men did the work previously done by 500 and with no more fatigue.

Suitable ventilation, without draughts, can assist very materially in keeping down the amount of fatigue. The temperature should be kept at a suitable level, having due regard to the type of work being done. The provision of proper ventilation and temperature conditions is by no means easy in a factory, but should be carried out as far as possible.

Proper methods of illumination lessen the strain on individuals and therefore decrease the amount of fatigue experienced. They also reduce the amount of spoilt work. Although noise would appear to be inevitable in a factory, yet it is distracting, and its effects on efficiency are considerable. While such effects are not apparent on the surface, work in the midst of noise requires greater effort and is more conducive to fatigue. For instance, the use of noiseless typewriters in the office will probably lead to increased efficiency on the part of the typists.

Within limits, experience has shown that a reduction in the hours of labour may not only increase

hourly output but the actual output may also be increased. However, in most works and factories the hours of labour have been reduced to such an extent that any further reduction, although it might lead to an increase in the hourly output, would certainly not increase total output.

If a reduction in the length of the working day is unlikely to prove satisfactory, the introduction of rest pauses of a determined length and at determined intervals may have a beneficial effect on the reduction of fatigue and all its attendant disadvantages, but rest pauses for persons engaged in operating machinery are often difficult to arrange. Where it is practicable, a single rest pause of a few minutes when all machinery is stopped would probably be of assistance. This is particularly so where female labour is employed.

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### AUDITOR'S DUTY AS TO SHOWROOM ACCOUNTS.

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Re S. P. Catterson & Son, Limited (in liquidation);  
Bell v. Beeby.

A summons raising the question of an auditor's duties came before Mr. Justice Bennett in the Chancery Division last month. The company in relation to whose affairs it was issued was S. P. Catterson & Son, Limited, dealers in electric lamps and other electrical appliances, in voluntary liquidation.

Mr. Victor Coen said he appeared for the liquidator, Mr. Harold Douglas Bell, Chartered Accountant, the applicant on the summons, and the respondent was Mr. Charles Ryland Beeby, Chartered Accountant. By the summons the applicant claimed £1,000 as compensation, or in the alternative £508, and the allegation was that the respondent was the company's auditor and was negligent in the conduct of his duties, and that in consequence an employee of the company was able to misappropriate money belonging to the company, which was irrecoverable. The negligence alleged, explained Mr. Coen, was not against the respondent personally, but against a member of his staff who did the work.

In his defence respondent denied that he was the company's auditor, but was engaged to make a partial audit for Inland Revenue purposes and to prepare monthly trading returns, and that he never conducted a complete audit. He also said that he warned the directors of deficiencies in their accountancy system, and he pleaded the Statute of Limitations.

On March 22nd, 1935, a resolution was passed by the company for a members' voluntary liquidation of the company, and Mr. Bell was appointed liquidator.

Dealing with the details of the misappropriations, his Lordship remarked that he doubted whether it was an auditor's duty, apart from special contract, to prepare an efficient system of verifying cash.

Mr. Coen submitted that it was his duty to tell the directors if there was no such efficient system. The applicant based his claim on breach of duty, and his (counsel's) proposition was that if there was no efficient system, or a faulty or bad system, and the auditor could not vouch the cash sales, then he must report to his principals that there was no proper system of control and he could take no responsibility. The first duty of an auditor, he said, was to look to the control of the cash. When in carrying out investigations, in accordance with special

instructions, he found irregularities he was put on inquiry, and it was his duty to report to the directors and put the burden on them, and to qualify his certificate accordingly. If an auditor could merely accept the books put in front of him, and could give a certificate to the effect that the balance sheet showed the financial state of the company's affairs according to the books, all that would be necessary for a fraudulent person to do, said Mr. Coen, would be to write up a special set of books and put it in front of the auditor, who could certify it and be free from liability.

Witnesses were then called.

Mr. Victor Coen, concluding his case for the applicant, Mr. Bell, made a final submission to the effect that Mr. Beeby ought to have provided for an efficient system of checking receipts in respect of the showroom sales, which were the sales in question in the present investigation.

His Lordship: But the system was the company's system. How did he fail?

Mr. Coen: I say he failed to provide that that system was the system actually used in practice.

Mr. Philip Vos, opening the case for Mr. Beeby, denied that it was any part of the latter's duty to do what Mr. Coen claimed that he should have done. Mr. Beeby, or Mr. Flutter, his clerk, who conducted the examination of the company's relevant books, warned the directors not once but many times as to the precautions that should be taken in connection with the showroom cash sales receipts and payments. The directors were told that the least they should do was to insist that the daily invoices should be entered in the daily cash book on the same day, and that the banking should be done daily. Mr. Beeby tried throughout to get these reforms adopted, but, said Mr. Vos, the directors took no notice.

His Lordship asked whether the auditor was under any obligation to make a test in 1929 in respect of the showroom sales.

Mr. Vos said that tests were made right up to the date when the frauds were discovered. He said he could satisfy his Lordship beyond any shadow of doubt that very full tests were made. He urged that the duty of the auditor was to draw the attention of the directors to anything that he was not satisfied with, and that if he got a reply from them which would satisfy any reasonable business man he could not go beyond the directors. It was not his duty to find fault with the system adopted. He had to base his certificate on the balance sheet that was put before him and not to criticise the system that was in use in that particular business.

Evidence for the defence was then given, after which Counsel addressed the Court.

#### JUDGMENT.

Giving judgment, Mr. Justice Bennett said the case of the applicant was that the auditor was negligent in failing to discover the fact that the showroom manager was a dishonest man. The primary responsibility for the accounts of the company rested on the directors, his Lordship added, and the directors in the present case were not a satisfactory team. The auditor's duties were, in broad terms, prescribed by section 134 of the Companies Act. It was important to have in mind that it was for the directors of the company to manage their business in the way they thought best, including the system of accounts which they thought should be employed. The only complaint made against the auditors was as to their dealing with the accounts of the company's showroom—a comparatively small department in which about 3 per cent. of their business was transacted.

Mr. Justice Bennett described how the misappropriation was discovered, and went on to say that the negligence

alleged against the auditors was said to have been many years ago. It might not be easy in 1937 for a man to be able to explain his conduct in 1930. Another matter which should not be lost sight of was that once the fraud had been discovered it was extraordinarily easy to see indications of it sticking out everywhere—indications which were not necessarily apparent to the man who was dealing with the matter at the time. It had been said in an earlier case that "an auditor is merely a watch dog; he is not a bloodhound." All the negligence alleged against the auditor was in connection with the cash received by the employee in the showroom. During the relevant period the audit was conducted not by the respondent himself but by a senior audit clerk named Flutter, who had been in respondent's employment for many years. His Lordship was rather surprised to learn that there was no fraud-proof system of checking cash receipts, which was not far too complicated and cumbrous for anybody to use. If a man were dishonest it would always be possible for him to steal for a time.

After describing in detail the system of book-keeping followed in the showroom, his Lordship said it was unfortunate that invoice books intended solely for cash sales were also used for transactions where short credit was given. But that system was known to the directors for many years. It was the duty of the auditor, as far as possible and within reasonable limits, to see that the company had received the cash it should have received from the sales which had been made. It was charged against him that he omitted to provide an efficient system of verifying the cash received by the employee. But it was clear that Mr. Beeby did ask for an alteration in the system, but that, for some reason or other, the company objected, and continued with the system as it was. In those circumstances he was not prepared to hold that it was the auditor's duty to insist upon the system being changed.

The next charge against the auditor was that by reason of the irregularity in the way in which the invoices were recorded in the daily sales cash book the auditor should have realised that something was wrong. He did not find that there was, in the matter referred to, anything which ought to have provoked the auditor to inquiry, or arouse in his mind any suspicion. As to complaints about duplicate entries in the daily sales cash book, Mr. Justice Bennett said he had had evidence from Mr. Flutter that inquiries were made and explanations given which, at the time, were satisfactory, but which he could not now remember.

"I am quite sure," said his Lordship, "it would be wrong for me, after this lapse of time, merely because a man—who I believe to have been trying to do his duty, and to be an honest man—cannot remember an explanation which he says was satisfactory at the time he received it, to infer against this man that he has been guilty of professional negligence. So, in my judgment the charge in respect of that matter breaks down."

Mr. Justice Bennett also referred to suggestions that the auditor should have suspected some faint impressions of receipt stamps upon invoices, and have noticed that in some cases discounts had been deducted. He found no blame attached to the auditor for these matters. In connection with a suggestion that he should have "opened up" reconciliation statements dealing with the cash received by a director from the showroom manager each day, he held that there was no duty on the auditor checking the cash book to open up the reconciliation statements unless his suspicion was aroused, when everything would be opened up and looked into.

"I have no doubt where lies the primary responsibility of finding out the defalcations of this man," his Lordship

added. "It lies upon the shoulders of the directors whose duty it was to collect from the employee the cash that he received. If that duty had been performed in any degree at all the frauds could not have been perpetrated in the way in which they were. Whether they could have been perpetrated in another way I do not know. It is those people who have failed to discharge the duty they owed to the company, not the auditors."

The applicant had quite failed to satisfy him, his Lordship said, in respect to the matters charged, or that there had been any negligence, and the result was that the application failed, and must be dismissed. He ordered that the applicant pay the respondent's costs, which should come out of the assets. It was a proper case to be brought by the liquidator.

### A QUESTION OF SOLVENCY.

The Court of Appeal on February 5th gave judgment in the appeal of Grosvenor Securities, Limited, and the Guildhall Trust, Limited, from the judgment of Mr. Justice Macnaghten on May 7th, 1936, awarding £3,625 to Mr. Anthony Nicholas Diamantidi, who claimed that that sum was due to him as deposit under a contract to buy from him shares of the Real Estate Debenture Corporation, Limited.

Mr. Justice Macnaghten, in his judgment, said that the accountant who gave the certificate as to the company's solvency, Mr. Gregg, expressed the view that he was not satisfied as to solvency, but he also said in evidence that he was satisfied that the company could pay its debts as they became due in the ordinary course of business. He based his certificate on the matter before him, and it seemed extraordinary that an accountant should be expected to act as a valuer of property as well.

The Court allowed the appeal.

Lord Justice Slesser, in giving judgment, said it appeared that the Judge had come to the conclusion he did on his view of the effect of the evidence of Mr. Gregg, the accountant. In his (the Lord Justice's) view, the words of the contract made it quite clear what were the circumstances in which the contract was to be void. They were that the agreement was to be subject to the accountant being satisfied that the Real Estate Debenture Corporation was solvent. On December 23rd Mr. Gregg stated that he was not satisfied, and thereupon, in his Lordship's view, the material clause operated and the contract came to an end, and the plaintiff lost his right to claim the deposit which he otherwise might have claimed.

The parties had chosen to make their contract in such a way that if the accountant said he was not satisfied, then the agreement was not to operate, and it was altogether beside the point and irrelevant to inquire into the grounds on which he made the statement that he was not satisfied. The materiality of that was that in the view of the Court, Mr. Stable, for the defence, could have rested his case on the fact that the contract was conclusive once he had produced the statement that there was not satisfaction. He should have declined to call any evidence at all, and he was, therefore, in part responsible for the great increase in expense caused by the examination and cross-examination of Mr. Gregg, and the calling of Mr. Cole, and all the other consequences of dealing with the matter which might have been dealt with on a point of law, and determined in a very few moments.

In his Lordship's judgment, Mr. Justice Macnaghten was not entitled to go into the question of the basis of Mr. Gregg's decision. Having read the evidence, if it were relevant to express an opinion, it seemed to him (the Lord Justice) that the Judge had substituted his own

opinion about the solvency of the company for the opinion of Mr. Gregg. But the question on which the contract depended was not whether or not the company was solvent, but whether or not Mr. Gregg was satisfied as to its solvency.

The appeal would be allowed and judgment entered for the defendants, but there would be no costs to either side.

The other members of the Court concurred.

## Society of Incorporated Accountants and Auditors.

### MEMBERSHIP.

The following promotions in and additions to the Membership of the Society have been completed since our last issue:—

#### ASSOCIATES TO FELLOWS.

- BARTLETT, RICHARD VYVYAN, Princes Chambers, Newport, Mon., Practising Accountant.
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- ROBINSON, JOHN HENRY, Borough Treasurer, Town Hall, Huddersfield.
- SIMMONS, GEORGE JAMES (W. Vincent Vale & Co.), 16, Waterloo Road, Wolverhampton, Practising Accountant.
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### THE WESTMINSTER BANK CENTENARY.

On the occasion of its centenary, the Westminster Bank has published an attractive 28-page booklet, written by Mr. R. H. Mottram, under the title "The Westminster Bank, 1836-1936." This is not a chronicle of facts and dates, but a very readable description of the bank's origin and development. It was first known as the London and Westminster Bank—so called because it had originally two offices, one in Throgmorton Street and one in Waterloo Place. It was founded on the joint stock principle, although there was at first some doubt whether this step was forbidden by the Charter of the Bank of England. The London and County Bank was one of a number of joint stock banks founded shortly afterwards. Parr's, one of the old private banks founded in Warrington, became large and composite by absorbing a number of smaller concerns, until in comparatively recent years both it and the London and County were absorbed by the Westminster Bank.

Descriptions are included of the characters who have been prominent in the bank's history: James William Gilbert, the first General Manager, under whose will the Gilbert Lectures were inaugurated; Lord Overstone, the private banker, who amalgamated his family's bank in Lothbury with the London and Westminster in 1864; Sir David Salomons, an expert on international trade; Walter Bagehot, whose early writings anticipated modern opinions on the "excess of savings over investments"; and Dr. Walter Leaf, the classical scholar, who showed his ability as chairman of the bank in the war and early post-war years.

### RECEPTION AND DANCE.

On Friday, March 19th, the Incorporated Accountants' London and District Society is holding a Reception and Dance at Incorporated Accountants' Hall. Mr. Edward Baldry, F.S.A.A. (the Chairman of the Society) and Mrs. Baldry will receive guests and members from 8.30 to 9 p.m., and there will be dancing until 1.30 a.m. to Marius B. Winter's band.

Tickets, price 10s. 6d. each, may be obtained from the Secretary at Incorporated Accountants' Hall, W.C.2. It is requested that application may be made not later than March 15th.

## Debentures and the Powers of Receivers Appointed by Debenture Holders.

A LECTURE delivered to the Incorporated Accountants' District Society of Devon and Cornwall by

MR. PERCY H. WALKER, F.S.A.A.

Mr. WALKER said: Before we can rightly deal with the question of the Powers of a Receiver appointed by the Debenture Holders, I feel it is necessary to give some consideration to the question of debentures generally. The origin of the word itself is interesting and illuminating, as the original Latin word *Debentur* simply means "there are owing." It is therefore merely an acknowledgment of an actual debt, but by custom of usage has come to be the recognised name for the deed or document charging certain property with the repayment of money lent and with interest on the sum lent. As a matter of interest, although it does not concern us, it is also the name of a certificate of drawback on Customs duties on the exportation of certain goods.

As you are all aware, companies frequently, either at the time of or after their incorporation, require to raise money in addition to their issued capital. This may be done either by

- (1) An ordinary unsecured loan.
- (2) By making and discounting bills or promissory notes.
- (3) By a mortgage on the property of the company.
- (4) By the issue of debentures.

As we are dealing primarily with debentures, we will consider first the steps that must be taken before an issue of debentures can be made. A careful examination should be made of the Memorandum and Articles to ascertain:

- (1) That the company has the power to borrow.
- (2) Whether the directors have authority to exercise the company's borrowing powers without a resolution of the company.
- (3) Whether there is any limit to the borrowing power and, if so, whether that limit has been reached.
- (4) Whether the company or the directors have the power to secure the repayment of the money borrowed by mortgage or charge.

It is interesting in this connection to note that borrowing powers will not be implied, if the Memorandum is silent on the point, "unless it be properly incident to the course and conduct of the business for its proper purpose."

It has been held that a building society, a school board, and a literary and scientific institution cannot in the absence of express powers, borrow at all, but a shipping company, omnibus company, colliery company, and generally any trading or commercial company, has an implied power to borrow, even though the Memorandum and Articles be silent on the point.

A company which has no borrowing powers, or which has exhausted its borrowing powers, may procure goods and get work done on credit, and give bonds (often called "Lloyds Bonds," after the name of the counsel who first drew the bonds) in payment. These are valid if given for goods supplied or work done, but void if given for a loan as the consideration is bad.

Borrowing from a banker, whether by unsecured overdraft or secured by the personal guarantee of the directors, need not occupy our attention, and we can, therefore, pass straight on to borrowing on debentures.

The bond is given under the seal of the company, and

is evidence that the company is liable to pay a sum specified with interest and usually charges the property of the company with the payment. The bonds are generally issued for units of £5 or £10 up to £100, and the method of application and allotment is similar to ordinary capital issues. But it must never be lost sight of that a debenture holder is a creditor of the company, and not a shareholder; and the interest on the debenture is payable, whether there is a profit or not.

Curiously enough, there is no legal definition of a debenture, neither are debentures defined in the Companies Act, although they are subject to so many provisions of that Act. But it does not really matter what the company calls the document; an income stock certificate, containing an acknowledgment of indebtedness, has been held to be a debenture.

Debentures can be of two kinds:

- (1) A mere promise to pay.
- (2) A promise to pay secured by a mortgage or charge.

This charge may be created by words in the debenture, or by a deed to the benefit of which the debenture holders are entitled, or by a combination of the two, and every subscriber or purchaser of a debenture should make careful enquiries as to the nature of the debenture offered. If it is not a mortgage debenture, *i.e.*, if it is a "naked" debenture, the holder is only able to prove in a winding-up with the other creditors, and the holder has no power to prevent the company creating a mortgage or charge on the assets in priority to his debenture. Further, he should see even if there is a charge whether it is a fixed charge or a floating one, and whether the company has any property worth seizing.

A debenture of a company does not come under the Bills of Sale Act, and is, therefore, a binding charge even if not in the form prescribed by that Act, although it has been held that in the case of a building society and an industrial and provident society, this exception does not apply. The reason for this is not clear.

If the Memorandum and Articles are silent on the point, a debenture does not require a seal, and any document which is sufficient to create a charge will suffice. (See case of *In re Fireproof Doors*, 1916.)

#### FIXED OR FLOATING CHARGES.

Where the charge created is a fixed charge, it is exactly like an ordinary mortgage, and the company can only deal with the property affected subject to the charge. The holder of such a debenture is the legal mortgagee. Where, however, the charge is a floating charge, the company may, in the ordinary course of its business, deal with the property covered by the charge, mortgaging it so that the mortgage takes priority over the charge, using it up as the business requires any time before the charges crystallise, and if property is acquired, subject to an existing charge, or upon the terms of the purchase price being advanced on the security of the property, these charges will take priority of the floating charge. As an example of this we have the case of *Conolly Bros.* (1912), where the property was conveyed to the company, but the title deeds were simultaneously deposited with the lender. The holder of such a debenture is only an equitable mortgagee.

Further, it has been held that where fixtures are taken under a hire purchase agreement, subject to a right of the owner to remove them, this right will take priority over the charge in the debenture. This was decided in the case of *Morrison, Jones and Taylor* in 1914 on the ground that the debentures were subsequent in date to

the hiring agreement, and only created an equitable charge. If, however, the fixed mortgage is expressed to be subject to an earlier floating charge, it will rank behind that charge, and the power to create mortgages in priority to the floating charge does not give a right to create a second floating charge *pari passu* with an earlier charge.

A floating charge covers all the right of the company in the property which is specified as being subject to the charge, and may include movable chattels, book debts, uncalled capital, and future property. It is a present charge and not a future one, but it does not specifically affect any item until the event happens under which it crystallises and becomes a fixed charge. In other words, under his floating charge, the debenture holder has an immediate equity or charge on the property, but the company has the benefit of the right to use or deal with the property charged in the course of its business.

It was held in the case of *The Metropolitan Bank of England v. Wiles*, and re-affirmed in the *Borax* case in 1901, that a company having several branches may, in spite of debentures having been issued, sell the whole of the business of one branch, or even the whole of its undertaking if such sale is within the powers contained in the Memorandum of Association.

#### WHEN THE FLOATING CHARGE BECOMES FIXED.

A floating charge crystallises or becomes fixed upon the happening of certain events as mentioned in the debentures upon which the debenture holders or trustees take possession, or appoint a receiver, and upon possession being taken or the receiver appointed, or if the company go into liquidation. This applies even though the provisions of the debenture only stipulate that the principal shall become payable on the company going into liquidation otherwise than for the purpose of reconstruction (*Player v. Crompton & Co.*, 1914), but so long as the company is a going concern the charge does not automatically crystallise merely by the happening of the events which entitle the debenture holder to intervene, such as the assigning of a debt covered by the floating charge, unless and until the events have happened, which entitle the debenture holder to appoint a receiver or apply to the Court, and unless and until the appointment or the application has been actually made.

In order to protect debentures from being postponed to a future charge by the creation of a fixed mortgage, it is usual to insert a declaration that the company shall not have the power to mortgage the property in priority to or equally with the charge created by the debentures, and as a general rule, this will secure the priority of the debenture, but even here the security may be defeated by a sale, or the security may become postponed by the claims of others, as until the charge actually crystallises, a garnishor may obtain execution, a landlord may distrain for rent, a creditor may set off his debt due to the company, whilst so long as the charge remains an equitable one a subsequent mortgagee who completes his title can obtain priority if he is unaware of the earlier charge, and does not know that the earlier charge contained a provision for binding the creation of prior specific mortgages.

Debentures may be issued

- (1) For a fixed term of years.
- (2) Repayable on notice.
- (3) Irredeemable.

In the first case, the term is stated in the deed, and upon such date, or the happening of the specified event, the company is liable to make immediate repayment. It frequently happens, however, that the terms of issue



provide for the company having power to redeem at an earlier date upon giving notice, or for a sinking fund to be created, out of which the company is required to redeem an appropriate amount of debenture from time to time.

It is interesting to note that a company may purchase its own debentures, which then become extinguished, but can be reissued. If they are purchased at less than their face value, the difference becomes a profit to the company, but cannot be distributed unless there is a profit by the company on the whole of the transactions of the company for the period in question. In the case of *Wall v. London and Provincial Trust* it was held that in the case of a company keeping its capital account distinct from its revenue account, the profit on the purchase of the debentures must be treated as being increment of capital, and not as part of the income of the company.

Even if there is no specific stipulation, the principal moneys will become payable on the company going into liquidation, and the charge will attach to the property as it exists at the time, and the property can be no longer dealt with except subject to the charge.

The debenture holder can exercise his right to enforce his security if the company parts with the whole or substantially the whole of its undertaking, and ceases to be a going concern, unless such a sale is authorised by the Memorandum of Association, but, as already stated, not if the company having several branches sells one only.

Where a debenture is expressly repayable on a given date, the holder can immediately such date is passed, give notice calling in his money, which is immediately payable.

It is not possible for the company to insert a paragraph that the debenture is redeemable at the company's option, and if such a clause is inserted the covenant is void.

Where a debenture is redeemable upon the happening of some event within the control of the company, the company cannot by determining the event compel the debenture holders to accept immediate payment. This, however, does not apply in the case of a company winding up.

Irredeemable debentures, which really amount to granting the holder an annuity in perpetuity, are very unusual, and where they are issued, special powers should be taken in the Memorandum. Where there are no such powers, Sect. 74 of the Companies Act, 1929, applies. This section declares that a condition in any deed, whether passed before or after the passing of the Act, shall not be invalid merely because the debentures are made irredeemable, or redeemable only on the happening of a contingency, however remote, or a period however long. Generally speaking, however, the law will not recognise any provision in a debenture or trust deed which prevents the company from redeeming the property charged, whether specifically or by way of a floating charge, and this was held in the case of the *De Beers Consolidated Mines Company v. British South Africa Company* (1912), and amplified in the ruling in *Kreiglinger v. New Patagonia Meat Company* (1914), both Appeal Court cases.

I do not think we need spend any time on the points relating to debentures payable to bearer or debenture stock, except to note that, in the case of debenture stock, instead of each bond securing a definite amount, the whole sum secured is treated as a single stock, and the certificates state that the holder is entitled to a definite part of such stock.

Loans of railway companies come under this heading, and are usually irredeemable stock. It is worthy of note that such stock, under the Companies Clauses Act, 1845, only entitle the holders to have a receiver appointed, and

do not give the power to seize or sell the land and property of the company.

#### THE APPOINTMENT OF THE RECEIVER.

According to Lord Halsbury, a legal mortgagee of land or building is looked upon at law as the legal owner of the property, and unless the deed expressly provides for possession by the mortgagor until default, he can at law take and obtain possession immediately upon execution of the deed, although the title only becomes absolute upon the default in payment of the mortgage money at the time fixed. Sect. 101 of the Law of Property Act, 1925, states that the mortgagee shall have power to take possession when the mortgage money becomes due, and this is obviously an equitable interpretation of the Act. If the mortgagee does take possession, he must account not only for what he receives, but also for what he ought to receive. In order to avoid this onerous obligation on the mortgagee, it is provided that instead of a mortgagee taking possession himself, he may appoint a receiver, subject to certain conditions for the protection of the mortgagor or owner of the property. Such receiver is deemed to be the agent of the mortgagor who is solely responsible for the receiver's acts or defaults unless the mortgage deed provides otherwise (sect. 101 and 109 of the Law of Property Act, 1925). This applies only to mortgages holding under mortgages created by deed, i.e., created under seal, and in the case of an equity mortgage not under seal the mortgagee has, as a rule, to apply to the Court if he wishes to appoint a receiver.

A receiver appointed under the statutory power is a receiver of income only, the legal estate remaining vested in the mortgagee. This would obviously be awkward in the case of debentures, and the statutory powers which are adequate in the case of an ordinary mortgage where there are only, as a rule, one or two mortgagees, are almost invariably extended in the case of debentures by the express terms of the documents.

Any debenture executed under seal and creating a definite mortgage or charge on the assets carries the power to appoint a receiver, even if no express power be given in the debenture deed, providing all the debenture holders concur, but such receiver would only be a receiver of income without power of sale. There is no recent ruling on this point, probably because all debentures contain a clause worded somewhat on the following lines:—

At any time after the principal moneys hereby secured become payable, the registered holder of this debenture may from time to time with the consent of the holders of the majority in value of the outstanding debentures of this series appoint by writing any person to be a receiver of the property charged by the debentures and may with the like consent remove any such receiver and such appointment or removal shall be as effective as if all the holders of the debentures of this series had concurred in the appointment.

It will be seen that the receiver cannot be appointed unless and until the principal moneys become payable. Thus, in the case of an ordinary debenture, when the principal money is repayable at a fixed date, say ten or fifteen years from the date of issue, and the debenture contains the clause giving power to appoint a receiver when the principal money becomes payable, the debenture holder can appoint his receiver as soon as default in payment is made, without giving any notice to the company. If, however, the money is payable on demand, a definite demand for the repayment will have to be made, and if the debenture specifies a certain period of notice, say three months, then that notice will have to be given. If a debenture specifies that it is repayable on or after a

given date, it is payable on demand on that date (*The Tewkesbury Gas Company* case, 1911). As already stated, whether there is any provision or not, the principal money of any debenture becomes repayable on the company going into liquidation, and a receiver may be appointed (*Crompton and Co.*, 1914), and, generally speaking, a well-drawn up debenture will make the principal money repayable on the happening of most, if not all, the events which are likely to prejudice the interests of the debenture holders.

Usually any one debenture holder, with the consent in writing of the majority or a specified proportion of the debenture holders, can appoint a receiver.

The Court can appoint a receiver before the principal or interest is in arrear if the company's property is in jeopardy, but the debenture holders can only appoint their receiver under the powers contained in the debenture when the circumstances arise giving them that power.

The right of the receiver to take possession of the assets depends entirely on the validity of the debenture, and if it can be proved that the debenture was issued to defeat the creditors of a debtor, who had assigned his business to a limited company for that purpose, the receiver appointed will be held to be a trespasser as against the Trustee in Bankruptcy (*Goldberg No. 2*, 1912, K.B. 606).

Care should always be taken to ascertain the solvency or otherwise of the company at the date of creation of a floating charge, as such a charge created within six months of a winding up, unless the company was solvent immediately after creation, is invalid except as to cash paid to the company at the time of or subsequent to the creation of the charge, with interest at 5 per cent. The discharge of an immediately payable debt is equivalent to the payment of cash in this connection.

It is interesting to note that the old ruling in the case of *Nicholson v. Tutin* in 1857 still holds, that where several mortgagees appointed one of their number as receiver, he was not entitled to any remuneration.

Anyone can be appointed, and the Court may appoint a director of the company, but where it is proposed to appoint a director as receiver under powers in a debenture, the consent of all the debenture holders should be obtained.

By sect. 30 of the Companies Act, 1929, a limited company can no longer be appointed as a receiver. It is essentially a fiduciary appointment, and must be held by an individual. There is no need to bother you with the form of appointment or the notice which must be filed within seven days.

The receiver appointed under the powers contained in the debenture should always sign all orders for goods as "For A.B. & Co., Ltd. .... Receiver," and should take care not to sign his name only, as otherwise he may be held to be personally liable. He should not contract in his own name, but in the name of the company whose agent he is. All the stationery of the company, and all statements, should be over-stamped or over-printed to the effect that there is a receiver appointed, giving his name.

#### POWERS OF THE RECEIVER.

The debentures should, and usually do, contain provisions to the following effect:—

- (1) That the receiver may take possession, collect, and get in the property charged by the debentures, and for that purpose take proceedings in the name of the company or otherwise.
- (2) That he may carry on or concur in carrying on the business of the company, and for that purpose

raise money on the premises charged, in priority to the debentures or otherwise.

- (3) That he may sell or concur in selling the property charged provided he gives at least seven days notice to the company of his intention so to do, and that he may carry such sale into effect by conveying in the name of the company or otherwise.
- (4) That he may make any arrangement or compromise that he shall deem expedient in the interests of the debenture holders.

And there should be a clause that the company irrevocably appoints any receiver attorney of the company for the company, and in its name and on its behalf to execute, seal, or deliver, and otherwise perfect any deed which may be deemed proper. His first power is, therefore, to take possession, and if anyone prevents the receiver taking possession, he may take proceedings to obtain such possession and prevent interference. He cannot, however, retain possession against anyone having rights ahead of him, such as a prior mortgagee.

A voluntary winding up does not affect his position, and if the company is in liquidation before his appointment, he can call upon the liquidator to give up possession.

#### POWER TO CARRY ON THE BUSINESS.

When the debenture contains a charge on a business, it is usual for the Court to appoint a receiver and manager, but if the appointment is out of Court a receiver only is usually appointed. If, however, the debenture contains the power for the receiver to carry on the business, then the receiver, although only termed a receiver, is in effect a receiver and manager.

Unless the debenture expressly authorises him so to do, the receiver cannot carry on the business, but if it does so, he can do anything the company formerly did. If he makes a loss, provided he has acted properly and in good faith, he can recover such loss from the company's assets and the debenture holders will be able to bring the loss as an expense of the receivership into account against any such debenture holder or mortgagee or against the company. But he should not carry on the business indefinitely.

The appointment of a receiver by the Court does not determine trade contracts, although it was held in the case of *Parsons v. The Sovereign Bank of Canada* in 1913, based on the ruling of *Read v. Explosives Company* of 1887, that usually the appointment would put an end to contracts of personal service.

The receiver may, however, with the sanction of the Court, refuse to carry out any contracts, when the other party will only have his remedy in damages against the company, and as the receiver has seized all the assets of the company, this right is obviously a barren one. But the Court will not sanction a wholesale repudiation of contracts merely to obtain better prices, as it was held in the case of the *Newdigate Colliery Company* in 1912, that the receiver should not, without the authority from the Court, destroy the goodwill of the company by breaking a contract. In this case, the colliery company had entered into forward contracts for the supply of coal, and the price had risen considerably. The receiver applied to the Court for liberty to ignore the forward contract, in order to obtain the benefits of the increased price. It was held that it was as much the duty of the receiver and manager to preserve the goodwill of the company as any other asset of the company, and as the breaking of this contract would obviously affect the goodwill of the company, the application was refused.



One of the difficulties the receiver is often confronted with in the collection of debts is the question of set-off. The position is that there is a clear-cut line at the date of appointment, and only debts incurred by the receiver can be set off against debts due to him. He can collect debts due to the company at the date of his appointment, and a creditor can only set off debts due to the company prior to the receiver's appointment. As regards these debts due at the date of his appointment, if, after deducting the sum the company owes the customer, there is still a balance due to the company from the customer, that is all the receiver can claim.

If the receiver, under the power to carry on the business, continues to supply goods under contracts entered into by the company prior to his appointment, he renders himself liable as agent for the company for any subsequent breach of that contract (see the case of *Parson v. Sovereign Bank of Canada*, 1913).

He will be deemed to be carrying out the company's contracts if he supplies goods in pursuance of them in the absence of provisions to the contrary. If he wishes to continue to run contracts, he should be sure he can carry out the contracts to their conclusion. If he breaks the contract where there has been part performance after his appointment, he renders himself liable for breach of contract, and although the claim may not be against the receiver personally, it may be set off against goods supplied or work done after the commencement of the receivership.

As it is usual to have a *pari passu* clause in all debentures, if one of the holders owes money to the company, he cannot participate in the proceeds of the debentures unless and until he has discharged his liability to the company.

Where the appointment of the receiver is made by the Court, it is advisable to ask at the same time for power to borrow for the purpose of paying

- (1) Current wages and outgoings.
- (2) Arrears due in respect of electric light, gas, water, and telephone services.

The first of these are, of course, preferential payments as defined by the Companies Act, 1929. Sect. 264 of the Act, after setting out what are preferential debts, states in sub-sect. 4, paragraph (b) in so far as the assets of the company available for payment of general creditors are insufficient to meet their claims, they shall have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.

I won't weary you with the list of preferential debts, rates, wages and salary, Workmen's Compensation and National Insurance, but it is worth while noting some of the instances of a debatable nature on which there have been rulings. Bonuses and commission on work done, and commission payable to commercial travellers within the statutory limits are preferential, but claims of apprentices in respect of premiums paid are postponed to those of the debenture holders. Directors' fees are not preferential, but fees to the trustee for the debenture holders may be secured by a lien on the documents over which he has control on behalf of the debenture holders. Secretary's salary is preferential, but not if he is secretary of several companies.

The fact that in order to carry on the business, the receiver must make arrangements for the supply of gas and electricity, and that certain statutory companies have the power to refuse to continue the supply until the arrears are paid, often leads to the assumption that these charges are preferential. In a case decided in 1931,

*Granger v. South Wales Electrical Power Supply*, Mr. Granger was the receiver and manager of a colliery company appointed by the Court. The power company refused to supply unless he would guarantee payment of the arrears as well as sums for current supplied to him. The power company is a statutory company, and is bound to supply energy to any person requiring it upon such person entering into a binding agreement to take such energy on terms to be agreed. The receiver claimed to be such a person, and stated he was ready to enter into a binding agreement to pay for energy supplied to him, but not to pay for arrears. It was held that he was not the agent of the colliery company, and that his occupation was not for all purposes the occupation of the company, and that he was a person requiring a supply of power within the meaning of the Power Company's Local Act. The power company could not, therefore, withhold the supply of power until the arrears were paid. If, however, he had been appointed receiver without the aid of the Court, but only under the power of the debenture, he would have been held to be the agent of the colliery company, and the power company would have been able to withhold the supply. I had the same complication myself with the Swansea Corporation and the Cardiff Gas Light and Coke Company in cases where I was the receiver appointed under the powers contained in the debenture, and in both cases I had to pay the arrears before the supply would be continued. The position of the power company in the case of *McClintock v. The Westminster Electric Supply Corporation Co., Ltd.* in 1931, where Sir William McClintock was the receiver for Gamages (West End), Ltd., was held to be that they could refuse to supply until the arrears were paid. The ruling in *Granger v. South Wales Electrical Power* seems, therefore, to be contrary to the general rule. The case of *Paterson v. Gas Light and Coke Co., Husey and Gas Light and Coke Co., and The Same v. London Electrical Supply* all go to confirm the power of statutory companies to refuse to supply until arrears are paid.

If he has a definite written authority, the receiver may expend moneys received by him on repairs to the property, but he should take care to have such written authority.

As he is empowered to execute deeds in the name of the company, he may lease the company's property or accept surrender of leases, but where the question of the sale of the company's premises arises, he should be careful to see that the debentures authorise him to convey or assign the property in the name of the company, or appoint him the attorney of the company to convey on its behalf. It is safest to get the company to concur in any sale, and to get the seal of the company affixed to the conveyance by the secretary. The receiver cannot affix the common seal of the company. Most debentures are so drawn as to empower the receiver to convey any property in the name of the company, and as attorney for the company, but there are still many in existence which do not give this power. It cannot be too strongly urged that the receiver should always acquaint himself very carefully with the exact wording of the debenture under which he is appointed.

Let us now consider how the receiver should deal with the money which comes into his possession.

Usually the order of distribution is as follows:

- (1) Costs of realisation.
- (2) Costs and remuneration of receiver.
- (3) Costs, charges, &c., of trust deed.
- (4) Plaintiff's costs of action.
- (5) Preferential claims.
- (6) Balance to debenture holders.

It should be noted that the receiver's remuneration



takes precedence over the preferential debts. The usual condition to govern the receiver's remuneration is sub-clause 6 of sect. 109 of the Law of Property Act, 1925, which reads as follows :

The receiver shall be entitled to retain out of any money received by him for his remuneration and in satisfaction of all costs, charges, and expenses incurred by him as receiver a commission at such rate not exceeding 5 per cent. on the gross amount of all money received as is specified in his appointment, and if no rate is so specified then at the rate of 5 per cent. on that gross amount, or at such other rate as the Court thinks fit to allow on application made by him for that purpose.

This clause was intended to apply to a receiver appointed under a mortgage, but it can be taken as a useful guide for all receivers. Under the Companies (Board of Trade) Fees Order, 1929, it is provided that where the Official Receiver realises property for debenture holders the fees laid down for the Official Receiver as liquidator shall apply; that is, 6 per cent. on the assets realised or brought to credit up to £1,000, 5 per cent. on the next £1,500, 4 per cent. on the next £2,500, and a reducing scale up to £100,000, and on the amount distributed half that scale. This may also be taken as a guide.

Where the debentures operate as a fixed charge on certain assets, such as land and buildings, and a floating charge on other assets, such as stock in trade and book debts, the preferential debts under sect. 78 and 264 are not preferential to the debenture so far as the fixed charges are concerned (*Lewis Merthyr Consolidated Collieries*, 1929).

It must be borne in mind that a landlord has no preferential right for rent, but, of course, his right of distress or re-entry place him in a position to recover his rent both against the receiver and the unsecured creditors.

#### INCOME TAX.

The position with regard to Income Tax is that all assessed taxes, land taxes, property and income tax assessed on the company to April 5 next before the appointment of the receiver not exceeding one year's assessment, are payable in priority to principal and interest secured by a floating charge.

I had a case in my own experience where I was appointed receiver by the debenture holders of a shipping company. The bank held a prior mortgage on the ships of the company, and concurred in my appointment. After running the ships for a couple of years, I sold them, and the bank, by reason of their prior charge, appropriated the whole of the proceeds, after allowing me to deduct my remuneration. There was a sum of some six hundred odd pounds due for assessed Schedule "D" Tax on the company, and the Board of Inland Revenue held me liable for that sum. I successfully resisted the claim on the grounds of the prior claim of the mortgagee. There was a ruling on this point the following year in the *Lewis Merthyr* case to the effect that preferential debts are not payable out of assets subject to a fixed charge in favour of, or which are specifically mortgaged to the debenture holders. Where, however, there is only a floating charge, one year's assessment will be payable *pari passu* with other preferential debts out of the assets, subject to the floating charge.

Any tax assessable on the property or profits made by the receiver while in possession is accountable for by him, and he must make returns and render accounts to the inspector in a similar manner to the company itself. It was held in the case of *Commissioners v. Eccles Thompson* that where a receiver carried on the company's business

he might be assessed under Schedule D on the profits from the company's business during his receivership: and that on his taking possession he did not "succeed" to the trade within the meaning of Rule 9, Cases 1 and 2, which contemplates clear cessation of the trade that was being carried on and that there must be a succession by somebody else. If a receiver has notice of a preferential claim, and he pays other creditors without discharging it, he will be liable to the preferential creditor.

#### EXECUTION CREDITORS.

The receiver's title takes priority over execution creditors who have not completed their execution, and if the receiver finds that execution has been levied, or steps taken to garnishee money due to the company, he should give notice to the Sheriff or the debtor whose debt is being garnisheed that he claims the assets. The notice must be given before the goods have been sold or the garnisheed debt has been paid.

A receiver is personally responsible for any loss incurred by reason of his wilful default, and may be ordered to pay the cost incurred by reason of his misconduct in the discharge of his duties.

There does not appear to be any legislation as to the books and accounts a receiver must keep. In practice, if he is appointed as receiver and manager, he takes over the company's books, and after ruling off and balancing up at the date of his appointment, carries on their books in any case so far as the personal ledgers are concerned. Personally, I always open a special cash book, independent of the company's cash book, as from this is prepared the statement of cash received and expended. As this statement, which has to be filed every six months with the Registrar, has to show the nature of the receipts and expenditure, it is advisable to have the receiver's cash book specially ruled with a description column.

The debenture usually gives the person who has the power to appoint a receiver power also to remove him. The method of such removal is rather uncertain, but presumably all that has to be done is for the debenture holder to give notice to the receiver to that effect.

The receiver himself must file with the Registrar notice of ceasing to act when he vacates his office, and this applies whether he has completed his task or been removed.

He must file a receipts and payments account up to the actual date he ceased to act, and if he has been appointed by the Court, he gets his discharge when the final accounts have been passed, and he has paid over the balance in his hands. If he is appointed by the debenture holders under the powers contained in the debenture, all he gets is the official receipt from the Registrar, but it is as well to obtain a letter of release from the debenture holders. There is no stereotyped form for this.

I have tried in this lecture to define and classify the different types of debentures, and to deal with the practical difficulties with which a receiver may be confronted, many of which I have come across in my own experience. I hope the information I have been able to give may prove of some use in your examinations and in actual practice.

#### INCORPORATED ACCOUNTANTS' EXAMINATIONS.

The next examinations will be held on Monday, Tuesday, Wednesday, and Thursday, May 3rd, 4th, 5th, and 6th. Candidates resident away from London, who desire to present themselves at the London Centre are advised to make early arrangements for their personal accommodation, having regard to the large number of visitors to London at that time for the Coronation, which will take place in the following week.

## Incorporated Accountants' District Society of Liverpool.

### LUNCHEON.

A luncheon of the Incorporated Accountants' District Society of Liverpool took place on February 11th at the Constitutional Club, Liverpool. The chair was occupied by the PRESIDENT, Mr. T. T. Plender, and there was a large gathering of members and guests, including the Lord Mayor of Liverpool (Alderman William Denton, F.C.A.); Mr. R. Wilson Bartlett (President of the Society of Incorporated Accountants); Mr. J. L. Stocks (Vice-Chancellor of the University of Liverpool); Mr. A. E. Frankland (President of the Liverpool Law Society); Mr. W. E. Humphrey (Principal Inspector of Taxes, Liverpool); Mr. A. A. Garrett (Secretary of the Society of Incorporated Accountants); Mr. Percy F. Corkhill (Lord Mayor's Secretary); Mr. C. Hewetson Nelson (Senior Past-President of the Society of Incorporated Accountants); and Mr. W. Bertram Nelson (Honorary Secretary of the District Society).

The toast of "The King" having been duly honoured,

Mr. PLENDER, proposing "Our Guests," coupled with the toast the names of the Lord Mayor and of Mr. R. Wilson Bartlett. Liverpool, he said, was no mean city, and to be the first citizen was undoubtedly an honour. So far as he remembered, Alderman Denton was only the second professional accountant who had been the Mayor or Lord Mayor of Liverpool. Liverpool had had many distinguished Lord Mayors, and no doubt would have many more, but they would all agree that the city had never had a better one than Alderman Denton. (Hear, hear.) He had known Alderman Denton for some time, and could say that he had never been too busy to help in any cause which had for its end the betterment and amelioration of conditions of those who were worse off than others. Alderman Denton did a tremendous amount of work, but was never in the limelight; he much preferred to do the work behind the scenes and let someone else take the "curtain." That was a very rare thing, but it was very refreshing when one came across it. He was always prepared to give people the benefit of his ripe experience and judgment on any subject, and when he gave advice he gave it in such a friendly, tactful way that, even if he did not agree with them, they felt that they did not mind. (Laughter.) With regard to Mr. Wilson Bartlett, he had been President of the Society for two years running, and they appreciated very much the fact that he had come down to Liverpool to honour them by his presence. (Applause.)

The LORD MAYOR, in responding, said he was very pleased to be there. In his long experience he did not think he had ever had luncheon with the Incorporated Accountants before. He had had the pleasure and honour of dining with them on occasions and had greatly enjoyed their company. It had been his great pleasure to know many of the members of the Incorporated Society—his friend, Mr. Hewetson Nelson, and many others he could name who were there that day. It had always been a great pleasure to meet them. The members of the Institute of Chartered Accountants regarded them as very sincere and good colleagues and comrades in the great profession of accountancy. He was very proud of being the Lord Mayor of the great port of Liverpool, one of the greatest commercial ports in the world. It was a great city, and they were all very proud of it. They were all thrilled just now—and on this point it was not easy to control oneself as a public man—at the good news which had come to Liverpool that the great "shadow" aircraft factory was to be built at Speke. The Liverpool Airport

was not an old one, but from what he had been able to see it was one of the greatest in the country. He thought the Government had chosen well and wisely in selecting Speke for the new aircraft factory. He looked for a great future for Liverpool from the industrial point of view. Liverpool had long been pre-eminent in regard to transport and the means of transit of goods by rail, by steamer, and every other way they could think of, but it had not been that great manufacturing city that it would have liked to be. He thought the time had now come for Liverpool to do all it could to be commercially-minded and to become a manufacturing city. Here was a great opportunity; the aircraft factory would bring along with it many minor industries, and no stone would be left unturned to provide in every way for their welfare. He was very pleased to welcome Mr. Wilson Bartlett to Liverpool. They always welcomed distinguished guests in Liverpool, and he was always pleased to see them at the Town Hall. If Mr. Wilson Bartlett would come and pay him a visit at the Town Hall he would be delighted. He thanked them for their hospitality and wished the Society every possible success in the future. (Applause.)

MR. R. WILSON BARTLETT, J.P. (President of the Society of Incorporated Accountants), responding, said that whenever he came to Liverpool he always felt very much at home. For this he had been able to adduce two or three reasons. First, it might be that he had so many personal friends within his own Society resident and practising in the city, and they always made him feel at home. The second reason was that Liverpool was situated on the banks of the Mersey, and his home was situated on the shores of another great waterway, the Bristol Channel. Newport was about the same distance as Liverpool from Birmingham and the great central industrial area of the Midlands, and they entered into very friendly competition for the imports and exports arising therefrom. In addition, he believed he was right in saying that they had in Liverpool almost as many Welshmen as there were within the Principality of Wales. (Laughter.) In any case, it was a real delight to be with them again and to be allowed to join in thanking their Chairman for the very kind way in which he had proposed the toast of "The Guests." It was with very great regret that he was unable to come to Liverpool when the Lord Mayor opened Liverpool Incorporated Accountants' Hall. He would like to take the present opportunity of extending his congratulations, and also the congratulations of the Council, to the Incorporated Accountants of Liverpool upon the very tasteful and yet practical way in which they had planned that excellent building. (Hear, hear.) It was reported that a very wise old woman, questioned as to her views on various aspects of life, declared that men were guilty of three most astounding acts of folly. In the first place, they took the trouble to climb trees in order to shake down the fruit, while if they sat down patiently at the foot of them the fruit would in due time fall down itself. In the second place, she said, men went to war with the idea of killing each other, while again, if they only waited, they would in the course of time all die off quite naturally. (Laughter.) In the third place, the wise old woman said men ran after women, while, if they only held aloof, the women would very soon run after them. (Laughter.) Those might be words of wisdom under the circumstances quoted, but they would agree that they could not and must not be applied to the realm of industry and commerce. The City of Liverpool, despite difficult times—now, as the Lord Mayor had said, happily receding—had shown its determination to study, plan, and solve its own particular problems. Coming, as he did, from the county of Monmouth—part of which was a distressed area, much worse than any part of Lancashire

—he could appreciate both the human and the business implications of those problems which they had had to face. It was pleasing to find a definite public opinion had arisen that brain-power, finance and new methods, properly directed, could bring about better industrial conditions and improved employment. Liverpool was not only the great port of the north-west, but had a very wide hinterland of industrial areas, was itself the centre of a very large manufacturing district, and would inevitably benefit by new and recently completed developments, as well as by the revival in shipping and cotton. He congratulated them and Lancashire on the Government's decision to erect the new aeroplane factory at Speke instead of placing it within the county of Berkshire. At the same time, it was reasonable that they should extend equal congratulations to the county of Berkshire on the preservation of a rural and residential area. For once the Government seemed to have pleased everybody. He suggested that this instance made it clear that all aspects of the problem of establishing an industry in any area must be considered authoritatively and with due regard to every material factor. Public opinion might not always be right, but public opinion could very usefully co-operate with official initiative in regard to problems of this kind. For instance, the new factories constantly spreading in the London areas, instead of being built where they were wanted, had given rise to many incidental, though serious, problems. Migration, it was thought, would offer some solution of the problem of unemployment, and so it had. But migration was no more than a partial solution, and not altogether satisfactory. After all, people who lived in a particular area frequently preferred to live there rather than anywhere else. In his opinion the time had come for factories to go to the places where the people were, and not for the people to be transferred to factories in new areas. It was estimated that over 30 per cent. of the total population of England was now within a radius of 50 miles of London, and this was undoubtedly raising new problems of an astounding magnitude with regard to roads, water, education and all other public services. Sir Percy Malcolm Stewart, whose baronetcy in the recent Honours List would give wide satisfaction, urged the limitation of new factories in Greater London, and the need for inducements in other areas. The provision of credit not obtainable elsewhere by organisations such as the Nuffield Trust was a hopeful sign that new enterprise, finance and private generosity could be combined to deal with questions of great national concern. It was important that the enterprises should show themselves to be credit-worthy by their prospects and by the quality of their management and direction. The Special Areas Reconstruction Association, of which Lord Portal was the chairman, was formed to provide means of credit to smaller undertakings in the more difficult areas. So far it would appear that a good many of the applications, in fact most of them, had not given the impression of confidence—at least, not sufficient confidence to induce the Association to respond to their requests. These, he suggested, were questions which concerned Incorporated Accountants, because it was their professional duty to advise upon the introduction of new capital and to differentiate between the concerns which could benefit by new capital and those which, through irretrievable losses, were beyond hope. He extended to Mr. Plender his personal congratulations on attaining the chair of the Liverpool District Society. Mr. Plender bore one of the best known names within the realms of accountancy, a name which was treasured, not only in this country, but throughout the British-speaking nations. In addition, he would like to remember their Honorary Secretary, Mr. Bertram Nelson—(hear, hear)—their

Honorary Treasurer, Mr. Dolby, and every member of their Committee. There was one other name that he could not forget, and that was the name of the senior Past President of the Society, Mr. C. Hewetson Nelson. Over a long term of years Mr. Hewetson Nelson had carried out a wonderful work on behalf of the Society, first as a member of the Council, then as President of the Society, then as Chairman of the Finance and General Purposes Committee, and last, but by no means least, as one of the Examiners. Undoubtedly to him they owed an extreme debt of gratitude. (Hear, hear.) He thanked them all very sincerely for the enthusiastic way in which they had honoured the toast, and for the extremely kind way in which they had listened to him. (Applause.)

At the request of Mr. Plender, Mr. R. Wilson Bartlett presented to Mr. Claudian Sephton the Third Certificate of Merit, which he gained at the Final examination of the Society of Incorporated Accountants in November, 1936.

On the invitation of the Lord Mayor, the company drank the health of Mr. Plender, the President of the Liverpool District Society.

## Obituary.

### JOHN HETHERTON.

We regret to record that Mr. John Hetherton, F.S.A.A., died on February 9th, at the age of 74. Mr. Hetherton had been a member of the Society of Incorporated Accountants and Auditors since 1889, and was in public practice in York until 1930.

Mr. Hetherton took no part in public affairs, but was always a keen horticulturist and naturalist.

### FRANK WILLIAM PROSSER.

We have learned with regret of the death of Mr. F. W. Prosser, A.S.A.A., who had been a member of the Society of Incorporated Accountants since 1905. Mr. Prosser was for 50 years in the service of the Corporation of Bristol, from which he retired in 1928. He was for many years a member of the Committee of the West of England District Society, and from 1909 to 1920 held the office of Honorary Secretary.

## BRITISH MANAGEMENT COUNCIL.

After the sixth International Congress for Scientific Management was held in London in 1935 the Council of that Congress appointed a small Committee to take all necessary action to insure that Great Britain would be properly represented at the next Congress, and to consider the formation of a National Scientific Management Organisation. As a result of that Committee's deliberations a permanent body has been formed under the title of "The British Management Council," with the following objects:—

"To ascertain and represent both nationally and internationally the views of those concerned in management in Great Britain, and in particular as its immediate object to enter into relations and to co-operate with similar bodies in other countries, and to act as the representative of its constituent members in International Congresses and other activities concerned with Management."

Mr. Richard A. Witty, F.S.A.A., has been appointed as the representative of the Society of Incorporated Accountants and Auditors on the British Management Council.



## The Installation of a Costing System.

A LECTURE delivered to the Incorporated Accountants' District Society of Liverpool and the Liverpool Branch of the Institute of Cost and Works Accountants, by

MR. M. K. ARNOTT, F.C.W.A.

Mr. ARNOTT said: I intend to be somewhat liberal with the title of my talk, "The Installation of a Costing System," and to keep away, as much as possible, from the pure accountancy involved, so as not to burden you with sets of dummy forms and masses of statistics. First of all, therefore, let us try and realise the difference between cost accounts and financial accounts, or what might be termed general accounts. The ordinary financial profit and loss account and balance sheet can be said to record in total the expenditure and liabilities incurred by a business, and the income and assets accrued, whereas cost accounting covers a much more elaborate classification, analysis and study of such figures with a view to producing an historical record of what has happened, and giving the management a proper control of the expenditure of the business. In setting up a costing system it is essential at the commencement to consider the requirements of the business, to have an intimate knowledge of the factory operations and processes in order to collect data which will be useful to the management in the running of the business and to the departmental heads in the control of their particular section. It is, therefore, advisable, first of all, to draw up a general report on which the system can be planned. Such report would cover the following:—

- (a) The fixed assets of the business, such as land, buildings and plant owned or leased and operated by the business. This would show the land owned, its area in sections or zones, total value and value per acre. The individual buildings and their values, ground and floor areas, giving the floor area occupied by each section of the business. The location of each piece of plant, its value and rate of depreciation applied to it.
- (b) A summary of the products manufactured and sold, giving a complete list of individual packs and formula of the composition of each product covering raw material content, intermediate and packing materials.
- (c) A plan of the organisation and the personnel employed showing the general administration and the position of the "key" men of the business.
- (d) A survey of the operations and processes of manufacture from the receipt of the raw materials to the warehousing of the finished goods, showing where each operation commences and finishes.
- (e) A review of the control of all materials used in process, how they are housed and controlled as to receipt and issue.
- (f) A record of the "service" departments (steam raising, traffic, &c.), detailing the function of each and the service they perform.
- (g) A plan of the existing accounting department and accounting methods, having in mind how far it could be and is necessary to be incorporated into or used in conjunction with the cost system.
- (h) A complete record of all existing returns, forms and statements used.
- (i) Details of the marketing of the products covering distribution methods, selling organisation—indoor and outdoor.

As you will see, this report must be a very exhaustive

one, as it is essential to have as complete a picture as possible of all the activities of the business, its methods of manufacture and selling in order that the system to be installed covers the essential requirements and peculiarities of the business. Consultations are essential, therefore, with all concerned to obtain their advice and help, and more essentially still, their whole-hearted co-operation. It should also be borne in mind that the system is to be of use to the management, foremen, &c., of the business, and as far as possible simplicity is desirable with a minimum of printed forms, returns, &c.

The principal job of the factory management is to produce; of the transport control to distribute quickly and cheaply, and of the selling organisation to sell, and the less they are troubled with accountancy matters the greater will be the value of those which they are called upon to provide data for and later to study in the light of returns rendered to them.

There are several defined costing systems; the one I propose to outline to-night may be in part termed a control method of costing, dealing with a business where a series of commodities are being produced which pass through the same, or at least some of the same operations or processes, but generally my remarks could also apply in the main to other forms of costing. The methods which I will discuss are designed to give information from three different aspects:—

- (1) The personal aspect as will be shown by operating and process returns.
- (2) The technical aspect as shown by production cost returns.
- (3) The product cost aspect.

To my mind, one of the biggest problems in arriving at accurate costs is the method of dealing with what are usually termed "indirect charges"—charges which cannot perhaps be directly allocated to a particular operation or process, or other group of expense, and the methods which I will outline are designed so that the amount of such charges is brought to a fine minimum, say not more than perhaps 5 per cent. of the total expense of materials and other charges.

Let us, therefore, assume that we have a factory and all the necessary organisation laid out for the production and sale of a certain number of recognised products of a household nature, such as boot polish, furniture polish, &c. The first step in the laying out of the system is to analyse the activities of the factory into functional groups, these groups covering defined operations or processes which, themselves, will be the responsibility of a recognised departmental head. These functional groups will cover not only manufacturing and packing, but also factory services. For the purpose of easy reference I shall refer to these functional groups in future as operating locations. Such groups will, of course, be agreed upon in consultation with the technical directors or those responsible for the running of the factory and their number will vary according to the size and nature of the business and the number of operations which are performed in the production of the final products. If the factory is of a considerable size, it is probably advisable to have some system of code numbers whereby the allocation of expense to operating and other locations is conveniently carried out without necessitating writing out in full, the title of the particular location to which the charges have to be made. It is not my intention to elaborate any special form of coding, but one suitable for either hand or mechanical recording will be found to be beneficial. It will be necessary to institute labour cards or time cards on which workers will record details of the time spent on the various operating locations on which they work each day. Many of these, of course,

will only refer to one location where the worker is permanently employed, but there will be others, such as engineers, &c., who may work in several different locations each day.

Having, therefore, laid out the operating locations and similar locations for all other sections of the business covering distribution, selling, and advertising, it is an easy matter to charge to various locations direct expenses such as salaries, wages, social insurances, purchased water, steam, gas and electricity, purchased repairs to plant, sundry stores and miscellaneous charges, materials consumed in process, such as fuel in steam raising. There are other expenses which can be charged direct, such as depreciation on plant, local rates on plant and fire insurances on plant, but in order to do this it will first be necessary to have a complete inventory of the plant which is in each particular operating location in order that the total depreciation applicable to plant can be divided among the locations in accordance with the plant contained therein. This inventory information will have already been collected in the preliminary report. In a similar way, local rates and fire insurances on plant will be split up *pro rata* to the value of plant included in each location. Where there are separate insurance values, these will be used for allocating fire insurance instead of the book values. There are similar expenses, such as repairs, depreciation, local rates and fire insurances on buildings, which are not capable of such direct allocation, and these I will deal with later in reviewing the method of allocating service charges to the various operating locations.

There is now the problem of charging to operating locations their proportion of service locations, such as steam raising, electricity production, traffic, engineering, building upkeep, and I shall dwell briefly on each one of these to demonstrate the method of allocation.

All expenses in connection with services will be collected against operating locations in the same way as applied to production operating locations—that is by direct allocation of those expenses such as wages, &c., I have just mentioned—and they will also be charged with their proportion of each other's services in the same way as production operating locations are charged with services, thus enabling a complete cost of each service to be compiled. It follows that when producing cost accounts it will be necessary to complete these service operating locations before the production operating locations can be completed.

Now, as to the method to be used in charging or recovering these services to or from production operating locations.

#### STEAM RAISING.

The units of steam (lbs. or tons) produced will be ascertained by metering or by calculation from fuel consumption, and these units divided into the total cost already ascertained, will give the cost per unit of steam produced. The units of steam used by each production operating location will then be ascertained again by metering, or if meters are not installed in every location, by a pre-arranged basis of so many units of steam per unit of output for each location; that is to say, if a certain location turns out 1,000 tons, and by known calculations it takes 100 lbs. of steam to produce 1 ton, then that location will be charged with 100,000 lbs of steam. Metering is, of course, the better method, but can be costly, and therefore not always essential. By the other method just outlined, it will be found to be within a reasonable degree of accuracy and any small differences between the total steam produced, allowing for transmission losses, and the total consumed, can be pro-rated over all users.

#### ELECTRICITY PRODUCTION.

The same principle holds good in connection with the

production of electricity as that outlined for steam. Where electricity is produced within the factory or purchased in bulk from an outside source, charges to locations will be metered or ascertained by a pre-arranged method of calculation. Again, after the necessary allowances have been made for transmission losses, any difference between the total electricity produced or purchased and that to be charged to locations by calculation can be pro-rated over all users.

#### TRAFFIC.

The various sections of traffic will have their own expense collecting medium, separate locations being used for internal railways, motor transport, horse cartage, wharf operations, warehousing and despatch of finished products, if any or all of these facilities are available or are in use. The units of control will be suitable to the class of business conducted, such as tons carried or wagons movements by internal railways, tons carried by motor transport, loads carried by horse cartage, &c., and on this basis charges are made to operating locations in accordance with the work executed on their behalf as shown by returns kept of the goods handled by each of these services.

#### ENGINEERING.

Materials used in engineering, maintenance, repairs and capital work, will be directly chargeable to the location or capital account against which the materials are withdrawn from the stores. All wages and incidental charges for the engineering staff and their premises will be collected direct on an engineering location and a unit adopted of man-hours, representing hours for which payment of wages is made, and the total hours divided into the total cost gives a cost per man-hour for charging out to locations and/or capital accounts. The man-hours spent in each location will be arrived at from the time cards or time sheets on which each engineer and/or fitter records the time he spent in or on behalf of each location.

#### BUILDING UPKEEP.

The foregoing services have been comparatively simple to deal with, inasmuch as it is possible to charge departments with their costs on some well defined basis. The question of allocation of the costs of maintaining buildings, however, presents greater difficulties. It is logical to argue that the roof of a building is of as much importance to a department on the ground floor of that building as it is to the department occupying the top floor. Therefore, some means are necessary to enable the charges for buildings to be fairly proportioned to all departments housed in the buildings. Here again we have a collecting medium or location for all building costs, such as depreciation, local rates, fire insurance, repairs and maintenance. The total floor area occupied by each location in the factory will be available from the preliminary report, and the total area so arrived at, divided into the total costs of the building location, will give a unit cost per sq. ft. or per 100 sq. ft., and locations will be charged with building services or building upkeep on this basis, and on the total floor space occupied. This floor space will, of course, be greater than the ground area occupied where buildings consist of more than one storey.

There will also be other services, such as the control and handling of stocks of raw materials, engineering stores and miscellaneous stores, which, apart from any sundry materials used in operating locations, will not affect our operating costs. These expenses are collected in a similar way to all other services and are charged against the materials handled on a unit basis in keeping with the material, that is per ton or per gross, or a percentage on the value, and all materials withdrawn from stores will be charged to production at their cost price plus their control of stores charge.

We have now come to the stage where the costs of operating have all been collected into specific locations which tell us how much it costs to perform every operation or process and service necessary to transform the raw materials into finished products. There are, however, certain other expenses attached to production which are not covered in these operating locations. I shall deal with these later.

#### UNITS OF OUTPUT.

In order to arrive at a cost per unit of output of each location, it is necessary to fix a unit for each beforehand. Whilst with some the unit will be straightforward, say a ton, barrel, gross, &c., where each of the products passing through the location take the same amount of time, there will be others where the time taken by the various products will differ, especially on the packing operations, and it is therefore necessary to set up a unit of output which is not representative of any of the products produced. For a simple illustration, say one process has two different products passing through it, but it takes twice as long for one to pass through as the other, then the output, say in terms of tons, will be expressed as "unit" tons; the product which takes the longer time being counted as two unit tons and the other as one unit ton. In this way a unit ton cost is arrived at, the cost of which will not be subject to fluctuations by varying quantities of different products passing through the process. When the cost is being built up for the product taking the longer time, the cost of that particular process or operation will be allowed for on the basis of two unit tons for every actual ton of product. This unitising of outputs is of great importance and value in the building up of actual and estimated costs.

In all operating locations where the product is flowing along a recognised channel from operation to operation or process to process, it is necessary to have a well defined rule as to where one starts and the other finishes, and one which works satisfactorily lays down that it is the function of each operation or process to pass on the product to the next operation or process so that the cost of a process commences with the delivery of the product to it and ends when it has passed the product on to the next process.

Returns, daily or weekly, will be instituted to record the output passing through each production operating location and for the units agreed upon for the service operating locations. For example, traffic returns will show the internal handling of all materials, the man-hours for the engineering services will be summarised from the time sheets of the engineers and fitters, and so on. These returns will be summarised in the accounting section, and so at the end of each cost period information is available showing the output, &c., of each location in terms of units of each product. The allocation of operating expenses will be based the summation of these returns in accordance with the actual cost per unit for each operation, multiplied by the number of units of each product which has passed through. For example, the output of a process or operation may be 10,000 tons at a total cost of £10,000, giving a unit cost of £1 per ton, this being chargeable to:—

Product "A"	.. 5,000 tons = £5,000
"  "B"	.. 3,000 tons = £3,000
"  "C"	.. 2,000 tons = £2,000

Having, therefore, got the operating costs, our next step is to build up a complete cost of the products manufactured. Let us assume that, say, ten products are being manufactured with probably many different sized packs in each, then we will have ten separate production accounts—one for each product. If intermediate products are also made in the factory, such as wood boxes, separate

production accounts will be kept for the manufacture of such products. As we have now come to the stage where the material cost is introduced, a word here on materials and their control might be helpful.

Materials so often form the greater part of the total cost of a product that the control and recording of their movements is an essential part of any costing system in order to properly allocate the materials to their correct location or product and also to eliminate waste, pilferage and excess use. If the factory is properly planned, suitable storage accommodation for all materials will have been provided, situated in places convenient to their introduction into process. The costing system must, therefore, cater for the proper recording of materials as received, the keeping of stocks and the issue of materials to production. Quantity records will be kept in the stores themselves by means of bin cards, stock sheets, &c., and will record opening stocks, receipts, deliveries out and closing stocks. These will be further controlled by accounting records in the office for each material where values as well as quantities will be recorded, and the two records balanced with each other from time to time.

Issues from stores will only be made on properly authorised requisitions. Such requisitions will emanate from the planning department, who will authorise the issue of the correct quantities required for the planned daily or weekly production allowing for necessary margins for waste, spoilage, &c. By these means, inefficient use of materials will be promptly brought to light when the production departments find it necessary to request the authorisation of the issue of further materials to enable them to complete their planned programme. This method is not always applicable to all materials or every trade, but it should be applied wherever possible. Job costing lends itself particularly to its adoption, as, for example, in the printing trade. Where it is not possible then the requisition will be made on the authority of the person requiring the materials. All requisitions will require to be properly allocated against the product for which they are required. Copies of all requisitions will find their way to the accounting section responsible for stores records, where they will be priced and charges put through to the product for which they are used. It cannot be emphasised too much, the importance of strict and accurate control over materials and the proper recording of receipts, issues and stocks, more especially when they are to be used for compiling individual product costs.

Into each production account will be charged direct from stores, as already described, all the various raw, intermediate and packing materials used in the manufacture of each product. If necessary, these production accounts can be sub-divided into two sections—manufacturing and packing. In addition to these materials there will also be charged to each account their proportion of every operating location through which the product had passed, thus all the operating locations are automatically cleared or balanced by the transfer of their charges to the various production accounts. In this way there is collected into each individual production account all the materials and operating costs for each individual product, giving a total cost of each product. As for the operating locations, so for the production accounts—a unit of output is fixed and the total units of output divided into the total cost gives the cost per unit of the final product.

There are, however, certain expenses which cannot be allocated direct to operating locations or production accounts, such as salaries of general factory managers, who are not engaged on any specific section; costs of



buying department, service department, watchmen, cleaners, gatemens, accounts section and such-like expenses of a general nature applicable to the organisation and running of the factory apart from the selling side of the business. These are the expenses I said should not exceed, say, 5 per cent. of the remaining expenditure on materials and operating. Some arbitrary method will have to be agreed upon to charge these expenses to the individual products. Several ways recommend themselves:—

By adding a percentage to the total cost of the products manufactured sufficient to cover this general expenditure, and charging each production account with its due proportion. This method has, however, certain disadvantages, inasmuch as the higher costed products which have in them materials of high value, receive a higher proportion of the charge than a product containing low-priced materials. This can be partly overcome by agreeing on a basis whereby 50 per cent. of the charges will be recovered as a percentage on materials, and 50 per cent. as a percentage on other charges. As satisfactory a way as any, however, is to agree a charge to be added to each product—say, £1 per ton to product "A," 30s. per ton to product "B," &c., based on general experience of the relative time spent on the administration and production of each product. Whatever way is decided upon, charges are put through to the production account, thus giving a final total cost for each product.

Daily or weekly returns will be rendered of the total products passed into warehouse, and the summation of these for each cost period gives the output for each of the production accounts. For the production of intermediate products such as wood boxes, &c., the output will be the total passed to store or direct to process.

#### BY-PRODUCTS.

The question of by-products may arise. In the course of manufacture, certain matter or residues may arise from the treatment of the raw materials which are not required for the products being manufactured, but which can be sold in their unfinished state or treated in the factory itself to produce a saleable commodity. Where such residues are sold without further treatment, the production accounts would receive a credit for their proportion of the residues based pro-rata to the raw materials used in each production account, on the basis of the quantity of by-products produced valued at the selling price obtained for it. If, on the other hand, it is desired to treat the residues in the factory to produce some saleable commodity of higher value than the unworked residues, the credit to the production accounts would be given on the basis of the selling price of the by-products less the costs which are expended in treating the residues and transforming them into a finished saleable by-product. In this way the cost accounts will then disclose a net cost after crediting by-products, and no profit or loss will be shown by the sale of such by-products, which quite often are incidental to the real business of the company.

We have thus reached the stage where the products have been manufactured and packed, and passed into warehouse, the latter duty being the function of the last operation carried out.

Having covered the ground from the receipt of raw materials to the passing of the finished product into warehouse, and as the factory system is my main theme to-night, we shall stop here for the moment.

Now I said at the beginning that a costing system was partly an historical record, partly a means of control and partly a measure of personal efficiency, and that the particular system I have outlined is set up to cover three different aspects—the personal aspect, as shown by operating locations; the technical aspect, as shown by

production accounts; and the product cost aspect. So far as I have gone, it can be said that we have covered the historical record and the control of expense. By recording expenditure in this way it, of necessity, is a record of something which has already happened, and in that respect is history, and as such has limited uses. It enables a review or postmortem examination of facts which have already happened, and will be a very useful guide for the future, but will not be so useful in throwing up at once any irregularities or difficulties, excessive waste, &c., which demand immediate notification and prompt action to put right. These are questions of control which must not be neglected, and some methods must be adopted whereby current details are supplied to those in charge of locations and departments. As already stated, the operating locations are under a personal control. It may be that one manager or foreman is responsible for more than one operation, depending on the size and the output of the factory, but each having responsibility for the costs in his own section, and no expense should be debited to his section without his authority. When this is not practicable, he should have the right to challenge any expense put against his section.

There is, therefore, a tight control of all expenses involved in the manufacture of the product, excluding, of course, the material cost. In this way the expenditure is broken down and carefully scrutinised in detail, not only by the management, who can thus localise responsibility and excessive costs, but also by the people who are responsible directly or indirectly for spending or incurring expenditure. Those responsible will be supplied, say, weekly with details of their main expenditures such as wages, and of the output from the production operating locations, thus giving them up-to-date information of the costs of operating their sections. These returns can be calculated to show cost per unit of product not only for the work under review, but also cumulative figures for the cost period, together with corresponding figures for the previous period and/or year. Service operating locations will be likewise supplied with similar information as to the main costs of their services. There will, of course, be various expense items of a static nature, such as depreciation, &c., which need only be recorded in the returns covering each cost period, or, if desired, can be added at a standard rate to give a complete total cost.

From the production accounts we have a control for the technical side and the usings of materials. These accounts show that for a given quantity of material used, certain production has been obtained, and this can be checked up from formulæ or standards thus showing excessive waste, losses, &c., and confirming that production is following laid-down rules as to the material contained in the products manufactured. A daily or weekly check of material usings is effected by the control over authorisation of material issued from store. These accounts also disclose the production costs in total and per unit. The unit cost is again a control over the total expenditure on materials and operating, and provides to a certain extent a quick check on the operating and material usings. If production costs fluctuate from period to period, it demands closer investigation into detail after certain well defined reasons for fluctuations have been taken into account, such as the rise or fall in raw material prices, increases or decreases in production due to sales fluctuations whereby operating is affected in its fixed or overhead charges.

There now remains the question of the measure of efficiency, and that, in itself, raises the question of standards. Each operating location will show the total actual cost and the actual cost per unit of its output, together with the total output in units, but we have seen

that costs are liable to vary under certain circumstances so that the real cost is only that cost which can be maintained over a given period or "averaged" cost. In order to measure the fluctuations in actual costs, and so also, measure efficiency, a standard unit cost and a standard output in units will be set up for each operating location and for each product produced. Standards, however, can only be raised by a very careful study of past history combined with present and future conditions, but, briefly, they may be described as being the averaged cost over a fair period under certain conditions. Given these conditions in actual practice, then the standard unit cost should be achieved or even bettered. If not, then the process or operation is not being worked efficiently and steps will be taken to deal with the matter, being in the first place satisfied that the standard set is fair and reasonable.

The creating of standards very often necessitates a study of other matters, and calls for a steady measure of efficiency throughout all sections of the business. In order to create standard outputs it will be necessary to study and plan the total output set for the factory, which in turn demands the planning of what sales are anticipated for each product, so that the creation of standards really has for its commencement the setting up of a sales plan, which plan will be broken down to create a production plan which, in turn, will enable standard outputs to be created for every operating location. I mention this here instead of at the very beginning of my paper because it is necessary in the first place to have some reliable information as to costs before standard costs can be set up, and these costs can only be obtained from the setting up of your cost system in the first place to give you the necessary data.

These standard costs will be shown on the presentation of operating locations and production accounts alongside the actual costs, and will represent a means of checking up the efficiency of each particular operation. If sales fail to reach the plan set the factory production falls; production and operating costs rise, like a series of red warning lights. Likewise, if sales increase over the plan, costs should tend to fall, raw material prices, &c., remaining equal.

Standards, besides being valuable in measuring efficiency, have other uses. They will be employed as a means of arriving at selling prices for the products manufactured. Accurate standards are, in effect, the average cost over a period, and as such will represent the actual cost over the period covered, provided it is sufficiently long. The average cost of any of the products can be calculated at any time by taking the stock or market price of raw materials and adding to that the standard operating costs. Therefore, for a company where selling prices are to a large extent governed by raw material prices and are subject to frequent changes, this method of costing will be invaluable in so far as it is always in a position to give costs day by day. For a company where selling prices are fixed and only infrequently altered, the same system is valuable, inasmuch as it keeps posted the margin between the cost and selling price.

The outline of these operating locations and production accounts will, no doubt, have already conveyed to you the fact that the cost accounting section will of necessity be collecting regularly data as regards wages and other expenditure, material consumptions, locational outputs and services provided. Under this system, therefore, the costing department is the only section in the business which should be collecting this type of data. The information gathered by the costing department and used for the cost accounting, will be used for the compilation of the returns submitted to managers showing them the

results of their department, and therefore the costing department acts as a constant feeder of information to all sections of the business who are thus relieved of the necessity for keeping these data themselves, which very often leads to duplication of recording and other evils.

#### MARKETING.

We have dealt up to now with the manufacture of the product and its arrival in the warehouse of the company. There are, however, further expenses to be incurred before such product is sold and a return received for it. These expenses cover the distribution, advertising and selling of the product, and it is essential that as close a watch is kept over this expenditure as the factory expenditure, and brought into the cost calculations and the cost system generally, and although I do not propose to dwell to any great extent on the detail of this, mention of it will bring home to you the necessity for such expense being covered by any costing system. Carrying on, therefore, with the progress of the system: trading accounts will require to be opened for each individual product if it is desired to know what actual net profit is being made on the sale of each one. It may not be necessary to have this detail for each product, which can be grouped so as to curtail the number of trading accounts required.

From the production accounts, the products will be passed over to the trading account concerned, thus clearing the production accounts of all expense. There will be, therefore, on these trading accounts, opening stocks of finished goods, products passed from production accounts in the period covered, closing stocks of finished goods, and the proportion of distribution expenses, selling and advertising expenses as arrived at for each product. These accounts will also receive credit for the gross sales value received for the sale of products less discounts and allowances made, and the difference between such net receipts and the total expenses already detailed will give the net trading profit or loss made on each product.

Briefly, these trading profits will, in turn, be transferred to the profit and loss account, where other items of income and expenditure will be included which have not already been taken into account, such as income from investments, income from properties, audit fees, legal charges and other items which have no direct bearing on the manufacture and sale of the products, and thus the final net profit will be arrived at.

I do not intend to dwell on the allocation of these expenses to individual trading accounts, but the method employed here will be on the same principle as for other expenditure, that is, to allocate as far as possible the actual expenditure incurred by each product. It will be realised, of course, that there must be some arbitrary method of doing so, especially in connection with selling expenses, but the point which I want to bring out is that each of these expense items must bear the total expenses incurred by them, for example selling expenses, whilst including, naturally, the selling staff and the indoor staff who deal with orders, it should also include the expenses incurred by these staffs on stationery, printed matter, office accommodation, and so on. Advertising, naturally, speaks for itself in so far as the products individually advertised can be directly charged with that advertising, but where it is of a general nature, covering two or more of the products made, then here again a method of allocating such expenditure as between products will be devised, may be in relation to the value of the products sold.

The trading accounts themselves will be drawn up to show not only total costs but also the cost per unit of product, whatever that unit may be, so that there is eventually a complete record of the unit cost, as well as



the total cost of each product and what it is sold for. Time does not permit me to go into further things, which, obviously, the system cries out for, but perhaps I may be allowed to mention just one which is the logical conclusion of the whole system which I have attempted to outline to you, which is that of budgetary control, whereby the company can be in a position at the commencement of each year or accounting period to forecast what its profits are likely to be for that ensuing period under given conditions, and the whole aim and object of the costing system will be to aid everyone in the attaining of the forecasted results. There will be many, many features which will cause fluctuations to the forecast, but a study of the various returns will automatically ensure that such fluctuations are known and brought to light quickly and action taken to counteract anything of a serious nature which will effect the forecast of profit results.

It is, of course, essential that the costing system should be part of the general accounting of the company. It may be that it is the whole of the accounting, and that the profit and loss trading accounts, production accounts, operating accounts, which I have gone over, will represent the only accounts drawn by the company other than those prepared by their auditors. I know that for auditing purposes such elaboration of accounts is not necessary, and the presentation of, as I said at the beginning, a profit and loss account which shows the expenditure under groups and the income under groups, together with its supporting profit and loss appropriation account and balance sheet is all that is necessary. Where, therefore, as in some cases it does happen, a company produces such financial accounts and keeps its cost accounting separate, then under the system I have just outlined it is essential that there should be a complete link between the two sets of accounts and that the data which are used for one are the same as are used for the other, so that the final profit which is arrived at under both systems is the same. This is of the utmost importance, and is the only clear way of ensuring that the detail cost accounts are accurate.

In conclusion, I would like to state that the rather sketchy outline which I have given you covers a very full method of cost accounting. I have purposely done this to try to bring out that the field of cost accounting is a vast one, and one which provides an endless amount of interesting study, but it will be realised that the system will cost money to run and will, therefore, only be of value to any business providing its returns by the way of efficiency, and savings are in excess of its cost. It may not always be necessary or advisable to introduce so detailed a system, and therefore the great point which should be borne in mind by accountants who are called upon to introduce a costing system into a particular business is the requirements of that business, and how far the costing system can be taken to justify its introduction.

#### INSTITUTE OF COST AND WORKS ACCOUNTANTS.

The Institute of Cost and Works Accountants records a steady increase in the number of candidates sitting for its examinations. At the Final examination held in December, 1936, Mr. P. D. Irons, A.C.A., who is with Messrs. Barton, Mayhew and Co., London., secured the First Place and was awarded the S. Lawrence Gill Prize and the Leverhulme Prize. Thirty-two other candidates were successful in this examination, and 75 failed. Mr. S. J. Clifford, Chester, was awarded Honours in the Intermediate examination, in which 95 candidates were successful and 132 failed.

## Incorporated Accountants' Hull and District Society.

### ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' Hull and District Society was held at the Hull Guildhall on January 29th. The PRESIDENT (Mr. Stanley Scotter) presided over a large company, including the Lord Mayor of Hull (Alderman Frederick Holmes), Mr. R. Wilson Bartlett, J.P. (President of the Society of Incorporated Accountants and Auditors), Mr. C. H. Pollard, F.S.A.A., (City Treasurer, Hull), Mr. A. A. Garrett, M.A. (Secretary of the Society of Incorporated Accountants), Mr. G. Muff, M.P., Mr. C. Paley Scott, K.C. (Recorder of Hull), Mr. J. H. Nicholson, M.A. (Principal, Hull University College), Mr. G. Hindson (President, Hull and District Centre, Institute of Bankers), Mr. A. Wroot, F.S.A.A. (President, Grimsby Chamber of Commerce), Dr. H. Woodhouse (Clerk of the Peace, Hull), Mr. Harold D. Winter (President, Hull and District Law Society), Mr. K. H. Hopkins (Agent of the Bank of England), Mr. G. Astle (President, Yorkshire District Society), Mr. H. Goodes (Chairman, Provincial Stockbrokers' Exchange), Mr. A. Scholey (President-Elect, Hull Branch of the Insurance Institute), Mr. L. Woolley (Inspector of Taxes), Mr. W. C. Baxter (Manager, Lloyds Bank Ltd.), Mr. H. Smith and Mr. H. Piggott (President and Secretary, Manchester District Society), Mr. Allan F. George, LL.B. (Principal, Hull College of Commerce), Mr. O. J. Nutt (Manager, Barclays Bank Ltd.), Mr. R. G. Green (President, Hull Branch, London Association of Certified Accountants), Mr. W. H. H. Hutchinson (President, Hull and North Lincolnshire District Society of Chartered Accountants), Mr. H. I. Loten (Manager, Midland Bank), Mr. J. E. Spoors (Hon. Secretary, Newcastle-on-Tyne and District Society), Mr. R. Myles (Inspector of Taxes), Mr. R. C. Moore, M.A. (Director of Education), Mr. F. H. Tindall (President, Hull Institute of Estate Agents), Mr. T. Branton (President, Hull Chamber of Trades), Mr. H. Cunningham and Mr. J. W. Richardson (President and Hon. Secretary, Sheffield District Society), Mr. C. Russell (Manager, Martins Bank Ltd.), and Mr. A. Macdonald (Hon. Secretary, Hull and District Society).

The loyal toast having been duly honoured,

Mr. G. MUFF, M.P., in proposing "The City and County of Kingston-upon-Hull," made reference to the local controversy about the Hedon aerodrome, and said that they had taken action to prevent the airport becoming a white elephant. The City of Hull was truly great. It had proud traditions. It had a long line of men and women who had served it faithfully and for nothing in order to bring prosperity and happiness to the men and women and children who lived in it.

The LORD MAYOR, in response, referred to the Corporation estimates for the year 1937-38, and said that by strict pruning, but not of essential services, and by strict attention to the estimates they had been able to achieve what they set out to do. The Corporation was not responsible for what had happened to railway assessments, neither were they responsible for the fact that the operation of the new Sunday Trading Act would deprive them of an annual revenue of £5,000 which had been received from fines for Sunday trading. The ratepayers were getting value for their money. No one but a fool would spend money recklessly. Any man or woman who threw money away recklessly and wilfully had no right to hold public office.

Principal J. H. NICHOLSON, submitting the toast of "The Society of Incorporated Accountants and Auditors,"



said that he had been reading a book which, in spite of its title, he thought was likely to become a best seller. It was called "Mathematics for the Million," and was by Professor Hogben. He was no mathematician, but he found Professor Hogben's thesis a fascinating one. He showed that mathematics, far from being the abstract science that it was considered by the layman, had been evolved, like many other things, in the service of man, and apart from certain speculative and perhaps rather theoretical applications, still existed for the service of man. The Pyramids were built by the Egyptians, who were certainly remarkable people, and the Romans, who used the abacus, must have been very wonderful people, but we still had wonderful people in the world. Very often those wonderful people were not the people who appeared on the stage. Rather they were people who worked behind the scenes, and behind closed doors—sometimes, perhaps, for the good of society. Among them were Incorporated Accountants, who were, in a very real sense, the keepers of the business man's conscience. Again and again, generally, he hoped, from conviction, but occasionally from fear, some members of a board of directors must ask: "What will the auditors say?" and on the answer to that question a great many important decisions in high finance must depend, particularly if a board was inclined to sail a little near the wind. They were the keepers of the business conscience in a very special sense. Of course there were aspects of business policy which lay outside their sphere, and it seemed to him, as an outsider, that the conscience of business at its best was very much more sensitive to its social and public duty than it used to be in regard to conditions of employment and other things of that kind. But as to the financial aspect of the business conscience, accountants were the Lord High Chancellors of many business houses, and woe betide those kings of business or finance who tried to override their decisions. Theirs was a great and important responsibility, a responsibility which the members of their profession discharged with a percentage of lapses which would compare extremely favourably with the lapses of any other great profession. They were required to carry a very high virtue—the virtue of infallibility, the virtue of never being wrong. He did not suppose they would say that themselves; he was saying it on their behalf, and as a man who could only watch from a distance. At any rate, so far as probity and standard of service were concerned, they were required to tolerate nothing which was not absolutely open to inspection by the light of day. A financier once asked the question: "Who made chaos?" Principal Nicholson said he imagined it was sometimes his hearers' job to clear chaos up. He could only wish they could perform for international finance what they did for business finance. On their profession lay a grave responsibility which, so far as he, a layman, could judge, was admirably discharged. Civilisation depended not only on the accumulation of fine visible things which the best wit and courage of man had devised, but it included also an intangible thing called credit. That was not only in the strict business sense, but in the wider sense of knowing they could trust to an engagement being fulfilled, of knowing there were certain conventions that were binding upon the conscience of every good man. They were performing, and long might they perform, that most valuable service for society. (Applause.)

Mr. R. WILSON BARTLETT, J.P. (President of the Society of Incorporated Accountants), in reply, said when he was asked to respond to that toast he was informed by the Secretary that it would be proposed by the Principal of the University College of Hull, who was a very eloquent speaker and was a delightful person to meet. He was

also informed that the Principal had only been in Hull about three or four years. In the course of a post or two he received a copy of the journal called *The Trade of Hull and the Humber Ports*, which he might say, in passing, reflected in a very arresting manner the extensive trade and commerce pursued by the Hull area, and in it he found an article written by Principal Nicholson, in which he stated that he came to Hull fifteen months ago. After listening to the very interesting and instructive speech in which Principal Nicholson had proposed the toast, he could easily imagine the many services he had rendered to the College and to the citizens of Hull during his short stay among them, and it must redound to his credit that a professional accountant was so impressed by his work and personality that his sojourn in their city had been practically trebled. During the past decade, when the slump—unprecedented in history—affected all branches of commerce, industry and finance, many far-reaching problems were thrown upon this generation, and much hard thinking and overhauling was done. Incorporated Accountants, in common with all technical experts, were from time to time called upon to advise clients, large and small, in those difficult times, and he trusted could claim some credit for enabling them to take advantage of the change in economic circumstances which most parts of the country were at present enjoying. From the clearing returns of the Hull banks, which showed a 10 per cent. increase for 1936 as compared with 1935, he was pleased to see they were sharing in the improvement. The lack of research in industry was at one time a cause for much criticism, but less was heard of that criticism to-day. The opportunities for research in the realm of accountancy might be more limited, but it was a hopeful sign that much new thought was now being given to improvements in method and technique to meet the constantly changing conditions in which their work was carried on. On the other hand, professional accountants had many unique opportunities of studying the problems which generally affected trade and commerce, and in his opinion it was their duty to assist in solving those problems and in planning for the future. Would they, therefore, allow him to mention one or two features which he trusted would give them all some cause for quiet reflection? During the period of gradual re-organisation from the slump there had been a constant demand from all trades for Government assistance in the shape of regulation, quotas, special protection or subsidies. Most of those were, no doubt, fully justified then, but, as time went on, certain trades or industries might still be tempted—quite unconsciously—to think of their own particular interest and insufficiently of that wider sphere of industry and commerce of which they formed a part. All those demands were bound to involve further Government control in the conduct of such trades, because the Government could not be expected to afford paternal assistance without exercising a measure of influence or control. In the past most of that influence and control had usually been devoted to the maintenance of an artificial standard instead of eliminating the obsolete, and raising prices to the level of the weakest instead of reducing prices to the level of the strongest enterprises. During last week they had examples in the Press of a complaint of the motor car industry, and the Lord Mayor had referred that night to certain things that were happening within the coal industry; all those points certainly required very close watching. In other words, he was suggesting that only the interests of the producer were considered, and that the interests of the consumer were never really remembered. Surely the only permanent solution of any economic difficulty was to be found by a closer study of the consumer, especially when they remembered that there were in the world some

2,000,000,000 people, a large proportion of whom had not enough bread, to say nothing of the other necessities of life. In addition, this Governmental control, if persisted in and extended, particularly in the export trades, might result in transforming every economic transaction into a diplomatic negotiation and thereby creating the risk of new and unnecessary causes of conflict in various parts of the world. Governments undoubtedly had their duties and obligations to industry, but as soon as the present national and international difficulties had been cleared he would suggest that it behoved industry in all its branches to prove its own efficiency, and also that it was still capable of governing itself. His own home was in the West, on the banks of the Severn, but he could assure his friends in Hull that it was a great pleasure to come to the county of his origin and to the mouth of the Humber as President of the Society of Incorporated Accountants, which now had about 7,000 members. It was his privilege and his job to visit each of the 21 District Societies in Great Britain and Ireland, and that night he would particularly like to extend to the Chairman, and to their energetic Secretary, Mr. Macdonald, his personal thanks for the work they were carrying out in the East Riding of Yorkshire. He would also like to express his thanks to each member of the Committee. Miss Ridgway had been elected to the Committee in succession to her late father, who at one time was President of the Hull District Society. He wished to thank very sincerely Principal Nicholson for the kind and interesting manner in which he had proposed the toast and the company for the manner in which they had received it. (Applause.)

The CHAIRMAN (Mr. Stanley Scotter) proposed the toast of "Our Guests." He said he felt it was the most pleasing of the toasts on the list, because one of the most pleasing things throughout civilisation for everybody and every society and for every association of people was to extend welcome and hospitality to their friends and associates. Incorporated Accountants generally, and in particular the members of Hull District Society, were not any exception to that general rule. It was perhaps also the simplest of the toasts because there needed so very little to be said to assure for it a most warm reception. They sincerely thanked all their guests for giving them their delightful company. He did not intend to weary them by embarking upon a sort of "Who's Who" description and history of their individual guests, but he would not be doing justice to the toast if he did not make one or two special references. They wanted very sincerely to record their appreciation of the civic recognition they had that evening in the presence of the Lord Mayor. They should have had the Mayor of Beverley as well, but at the last minute he telephoned that he had been taken ill. They very much regretted his absence on that account, and hoped that his illness was nothing serious. They also regretted the absence of the Mayor of Grimsby. Civic representatives in these modern days were a very busy class of people, the calls upon their time were numerous and heavy, and they appreciated the presence of the Lord Mayor. They were very pleased indeed to have with them Mr. Wilson Bartlett, the President of their Parent Society. He was also a very busy man. He had taken a long and arduous journey from South Wales to be with them that night, and they did appreciate the interest he had shown. They welcomed also the genial and hard-working Secretary of the Parent Society, Mr. Garrett. They were pleased to have with them the learned Recorder of Hull, and the Clerk of the Peace, as well as a Parliamentary representative. The professions were well represented, including the legal profession, and they were also very glad to have with them the guardians of their

overdrafts, the bankers, and representatives of the Inland Revenue. To all those guests they extended a hearty welcome.

The response came from Mr. Geoffrey Hindson (President of the Bankers' Institute, Hull and District Centre), who said all the visitors had spent a very interesting and instructive evening and they wished success to the Hull Society.

## Reviews.

**Mathematics for the Million.** By Lancelot Hogben. London: George Allen & Unwin, Ltd., 40, Museum Street, W.C.1. (648 pp. Price 12s. 6d. net.)

Professor Hogben has provided us with a brilliantly written "popular self-educator," with a history of mathematics most fascinatingly described, with numerous witty comments on the life of our times and with a great deal of food for thought about the place of mathematics in our modern civilisation and what is intimately associated with this, our methods of teaching mathematics.

Modern education sets out to teach the art of living, and it is necessary for us in this time of increasing leisure to think hard and think often of how the various subjects taught to our students fit in with our ultimate aim. Mathematics to many specialists is a game rather like chess. Its fascination lies perhaps in the fact that "in the realm of pure thought, all men are kings." There is clearly no reason why those who like the game should not play it, but most serious mathematicians would agree with Professor Hogben that to be alive mathematics must be kept in touch with reality. It is certainly true that the children in our schools, four-fifths of whom have neither the desire nor the ability to appreciate this game, should not be taught, as many of them are, as if they were all to be specialists.

The book itself is a remarkably clever illustration of how the elements of mathematics can be introduced to an intelligent student in such a way that he realises that the matters under discussion are in no way divorced from life and that they have played, and are playing, no mean part in the building-up of our civilisation.

I have one small warning to offer to the "Million." A member of this category—that is to say, the ordinary man in the street—must not expect to attain to a real working knowledge of mathematics by using this book alone. The pill may be gilded in a most attractive way by Professor Hogben, but in mathematics, as in every branch of knowledge, sooner or later the solid core has to be cracked, and all teachers know that this can only be done by hard work and steady application. I consider that more than to "the Million" the book will appeal to people who have a good acquaintance with some branches of mathematics and who desire to extend their knowledge to other branches. There must be many accountants to whom this applies, and to them I confidently recommend this excellent book.

**The Law of Income Tax.** By Sir John Houldsworth Shaw and T. Macdonald Baker, Solicitor and Assistant Solicitor of Inland Revenue. London: Butterworth and Co. (Publishers), Ltd., Bell Yard, Temple Bar. (634 pp. Price 40s. net.)

This is an important and comprehensive work on the subject of Income Tax, and although the authors are Government officials they state in the preface that the book is in no sense an official publication and that the views expressed are personal to the authors. The method adopted is to deal in sequence with the different schedules under which income tax is assessed, the larger portion of the book being devoted to matters arising under Schedule D. In giving references to cases the footnote usually indicates the effect of the decision and in important cases deals with the judgment at some length. Amongst the more special matters discussed are the re-opening of accounts, tax-free annuities, gifts and discretionary

allowances, payments to rationalisation schemes and super-annuation funds, residence and domicile, and management expenses. The Appendix contains a tabulated statement of personal allowances, &c., giving full particulars of the allowance or deduction and the relative section of the statute; also a tabulated statement respecting appeals, setting forth the subject matter of the appeal, the Commissioners who have jurisdiction, and a reference to the statutory provisions bearing upon the particular matter. The book is supplemented by a full index and an elaborate table of cases.

## QUESTIONS IN PARLIAMENT.

On February 2nd, Mr. PEAT asked the Chancellor of the Exchequer (1) whether he would state the amount of the income for the year ended March 31st, 1936, arising in the United Kingdom subject to double taxation generally, and, in particular, by reason of taxes imposed by the United States of America;

(2) Whether he would state the amount of income arising in the United States of America subject to United Kingdom income tax for the year ended March 31st, 1936;

(3) Whether there was any obstacle to an arrangement with the United States of America granting reciprocal relief from double taxation?

Mr. CHAMBERLAIN: I regret that I am unable to furnish any estimate of the income arising in the United Kingdom or in any foreign country which may be subject to double taxation. As regards the question of relief from double taxation as between the United Kingdom and the United States of America, I would remind my hon. Friend that our law provides for arrangements on a reciprocal basis with foreign countries for relieving from double Income Tax shipping and air transport profits and profits derived from business carried on through agencies, and the arrangements already in force include one with the United States for the mutual exemption of shipping profits. No proposals for any extension of the sphere of relief provided by the existing law have been made to us by the United States Government, and as at present advised I do not think the time opportune for raising the question from this side.

Mr. PEAT: Is my right hon. Friend aware that in the United States Revenue Act, 1936, section 131, relief is given to American nationals on such of their income as is already subject to tax in this country? Is he also aware that owing to the increase of taxation throughout the world the question of double taxation is becoming important and a real hindrance to the revival of international trade?

Mr. CHAMBERLAIN: The question is whether we should derive advantage or disadvantage by such an arrangement as my hon. friend proposes. As at present advised, I do not think that we should derive advantage.

### Share Pushing.

On February 9th Mr. ACLAND asked the President of the Board of Trade whether, in view of the continued activities of bucket shops and the period which must elapse before legislation was introduced to control that evil, the Government would consider taking steps to supplement the action taken by certain banks and the unit trusts movement in issuing warnings to investors regarding the dangers of unsolicited investment offers, and would amplify those warnings to the general public.

Mr. RUNCIMAN: I will consider my hon. friend's suggestion

Mr. SHINWELL: Is the right hon. gentleman aware that large numbers of investors have complained of being defrauded by these organisations, and will he not take action to prevent this scandal?

Mr. RUNCIMAN: I am quite well aware that a good many people have been defrauded, and our object is to see that the law is carried out.

Mr. SHINWELL: Can the right hon. gentleman say what steps have been taken to carry out the law?

Mr. RUNCIMAN: If the hon. member cares to put down a question, I will see what information I can get on that point.

### Local Authorities (Revenue).

On February 9th Mr. T. HENDERSON asked the Minister of Health the total revenue in England and Wales of local authorities from rates, trading services, trading profits, Exchequer grants, Government grants in lieu of derating, fees, rents, and payments, special funds, and capital receipts respectively.

Sir K. WOOD: The following statement shows the total income of local authorities in England and Wales in 1934-35, the latest year for which complete figures are available:—

Income from rates .. .. .	£154,782,080
Income from trading services (including £2,018,177 transferred in aid of rates from profits) .. .. .	117,231,404
Government Grants:	
(a) Block grants under the Local Government Act, 1929 .. .. .	45,409,836
(b) Other Government grants on revenue account .. .. .	79,627,300
(c) Government grants on capital account .. .. .	2,107,830
Receipts from loans for capital purposes ..	64,838,551
Other income from fees, rents, repayments, &c.:	
(a) Rate fund accounts .. .. .	55,954,720
(b) Special funds .. .. .	8,381,970
(c) Capital accounts .. .. .	11,228,025
	£539,561,716

Note.—The block grants payable under the Local Government Act, 1929, include an annual sum of £22,292,203 in respect of "losses on account of rates" arising from the derating provisions of the Act.

### "O.H.M.S."

Mr. GROVES asked the Postmaster-General if he would say under what circumstances official notices printed for post with the inscription "On His Majesty's Service" needed a postage stamp affixed.

MAJOR TRYON: I am glad the hon. member has raised this question, which enables me to dispel what is, I fear, a prevalent misunderstanding. The printed inscription "On His Majesty's Service" on an envelope or form does not imply exemption from postage. If, however, it bears the "Official Paid" design it is so exempt. If the hon. member has any particular case in mind I shall be glad if he will communicate with me.

### Public Auditors.

In the list of Incorporated Accountants appointed as Public Auditors, published in our last issue, the following name was accidentally omitted:

Davies, Tudor, Wyndham House, Bridgend; Elias Road, Porthcawl.



## Incorporated Accountants' District Society of Nottingham, Derby and Lincoln.

### ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of Nottingham, Derby and Lincoln was held at Victoria Station Hotel, Nottingham, on January 27th, under the chairmanship of Mr. J. T. SINGLETON, President of the District Society. The gathering included the Lord Mayor of Nottingham (Councillor E. Purser), Sir Harold Bowden, Sir Albert Atkey, the Sheriff of Nottingham (Councillor A. E. Savage), Mr. E. Cassleton Elliott (Past President of the Society of Incorporated Accountants), Bishop Neville Talbot, Principal H. A. S. Wortley (University College, Nottingham), Mr. J. E. Richards (Town Clerk), Alderman H. Bowles, Mr. H. A. Dowson (President of the Law Society), Mr. H. Piggott (Hon. Secretary, Manchester District Society), Mr. S. Clarke (Chairman, North-East Midlands Branch of the Chartered Institute of Secretaries), Mr. H. Cunningham (President, Sheffield District Society), Mr. G. B. Blunden (Inspector of Taxes), Mr. J. F. Kirk (President, Nottingham Institute of Bankers), Mr. F. Pragnell (President, Nottingham Society of Chartered Accountants), Mr. W. P. Heath (Director, Barclays Bank), Mr. H. T. Millman (President, Leicester District Society), Mr. C. A. White (President, Nottingham Insurance Institute), Mr. P. F. Granger (Secretary, Nottingham Society of Chartered Accountants), Mr. B. H. Wallis (President, Lace Federation), Mr. J. Boydell, F.S.A.A. (City Treasurer, Nottingham), Mr. Fred A. Prior, F.S.A.A., and Mr. S. I. Wallis (Hon. Secretary of the District Society of Nottingham, Derby and Lincoln).

The CHAIRMAN (Mr. J. T. Singleton) proposed the toast of "The City and Trade of Nottingham." Nottingham, he said, was a great city, and he was proud to be a native of it. He was sure the City Council appreciated the services of Mr. Jesse Boydell, F.S.A.A., the City Treasurer, who provided them with a handy and helpful condensed version of the City's accounts.

The LORD MAYOR OF NOTTINGHAM, whose name was coupled with the toast, said he was always interested in accountants and accountancy. Figures were intensely fascinating, but he thought they ought to get beyond the abstract mentioned by Mr. Singleton, and get to the real "Bible" of the City Council. They must get down to the full text and understand how—he would not say why—the money was spent. He had no sympathy with people who said "You can make anything out of figures," for two and two made four, and he always felt that figures really did show exactly how matters stood. There was such an aggregation of commercial enterprises that it was almost impossible for anyone except an Incorporated or Chartered Accountant to deal with the enormous figures involved. If their city and its trade were to carry on as they should, they relied on the accountancy profession not to be moved from its standard by any suggestion that might come from the outside. The more they kept to that standard the more the public would rely on them. They were grateful to the commercial and industrial magnates of Nottingham for what they did to develop trade, and he trusted they would have such a good year that they would not only have sufficient profits to be able to "tell their banker" on behalf of King George's Jubilee Trust, but would be able to contribute to the University College fund so that it might achieve full University status. It would be a fine commemoration of the Coronation.

Sir HAROLD BOWDEN, G.B.E., proposed the toast of "The Society." Looking around him, he said, it looked as though accountants had a very substantial existence. (Laughter.) To those not versed in the sacred and strange rites they practised, the profession of accountancy always seemed to be one of the major mysteries of life. There was a time when the average business sailed along merrily from one year's end to another without calling in an accountant. He supposed that in those dark days business men mistook deficits for profits, and went along spending their losses as though they were gains, and it did not seem to matter. Where ignorance was bliss it was folly to bother about one's overdraft. (Laughter.) In these days, however, accountants, like the poor, were always with them, and he was quite sure they performed a very useful function. As a matter of fact, business men had a very great respect for accountants and for the assistance they gave them. Before accountancy became the science it undoubtedly was to-day, the financial side of a business was conducted by mere amateurs who probably did not know what they were doing, and certainly with limited knowledge they could not successfully control the large scale industries of to-day. It was often surprising to him that no one had put his finger on what was really wrong with agriculture. One reason was that agriculture was not organised in this country so well as in Denmark, Holland, or the Argentine. Our farmers were not business men, and had not realised to what an extent an investigation of their business by an accountant might help them. He had no doubt that the average farmer had a great deal of inherited common sense which served as a rough and ready substitute for scientific knowledge, but, speaking of agriculture as a whole, he had not the slightest doubt that in these days the farmer should be expertly advised by such as those present on every aspect of the financial side of the business. This implied the growth of a special brand of agricultural accountant who would make a study of the problems of the industry. He was sure it would not be very difficult for them. The accountant to-day seemed to occupy the same position in relation to industry that the medical practitioner did in relation to the household he visited. He did not mean that he was called in to doctor the accounts. (Laughter.) He meant he was the trusted adviser in all matters affecting the firm. Accountants, by virtue of their position, might play a very valuable part in the revival of industry. It was a traditional virtue or vice of the British manufacturer to keep his nose too close to the grindstone. He was slow to adapt himself to changes and to meet competition with new methods, rather adhering to the old "take it or leave it" basis. There must be a vast field of opportunity for our export trade, which, through lack of enterprise, had not been developed. He would like to emphasise the danger of relying upon the recent revival of home trade, which could not be expected to be permanent. There was a danger that many manufacturers were experiencing something like boom conditions at home, and had neglected opportunities for foreign trade which might not recur. Many firms were working at high pressure on Government orders and were refusing orders for export because they could not fulfil them. Accountants must be able to advise firms as to present and future policy, and they must consider undertaking a kind of propaganda campaign in the interests of British exports. It would undoubtedly have far-reaching results, not only for their clients, but for the country as a whole. They would, perhaps, say that their advice was not sought, and that they would be told to mind their own business. He did not think they would meet with such a reception. He thought most business men would be glad to profit from their experience. He regarded his accountants as quite human—(laughter)—and he was only too

willing to have the benefit of their advice on matters of policy. (Cheers.)

Mr. E. CASSLETON ELLIOTT (Past President of the Society of Incorporated Accountants), who responded, was given a hearty reception. In the light of Sir Harold Bowden's remarks, he deflected from his intended speech, and turning to agriculture, said it was a subject dear to his heart, as his family in previous generations was engaged in agriculture. He felt that Incorporated Accountants could be of considerable use to agriculture provided they knew something about it. If they were to be of any use in this science, they must remember that the farmer started very early and finished with the daylight, and sometimes after that. The time he had to devote to his office, therefore, was short, and they must not burden him with complicated systems of costings. If they could assist him in the science of markets and of marketing boards, they would be very useful to him. So many farmers thought a thing must be done in a certain way because it had been done in that way in the past. As to exports, there was not the slightest doubt that to a large extent this country had been living on its home trade and neglecting its export trade. Our export trade, however, was now showing a gradual increase. But two factors had to be taken into consideration: money, and the way we sought our export trade. He felt they should advise their clients to go abroad and visit the markets they were interested in. Customers in overseas markets liked the visit of a director, and not of a representative only. If directors would travel more and find out the conditions of trade, they would benefit their companies enormously. They must go to seek trade, and not wait for trade to come to them. In course of time, when the home market reached saturation point, those companies which had not taken the opportunity to seek trade abroad would feel sorry that they had not done so. Money was a different problem. Dearer money was coming sooner or later. Certain celebrated people were giving their views as to dearer money, and the previous day he had seen a report of a meeting at which the chairman suggested that dearer money was a long way off. If they could advise their clients to fund their loans it would be an advantage to do so, because the time would come when interest rates would increase, and then it would not be so easy as it was to-day. Cheaper money would continue for some time longer. The Government would, in course of time, have to float a Defence Loan. A great many people would like to see the re-armament programme paid for out of income. Judging by the rate of expenditure, it would be impossible to do that, and a Defence Loan would have to be floated, and the Government would wish to keep cheaper money for the time being. Later on, rates would gradually increase because more money would be required in trade. Investments with banks had increased from £296 millions in 1932 to £630 millions in 1936. They did not wish to see any slump in trade where an improvement had taken place. Traders were grateful that the increase had been gradual. He thanked the company for the cordiality of their reception. (Applause.)

Mr. F. A. PRIOR, F.S.A.A., proposed the toast of "The Guests." He congratulated Principal Wortley upon the honour of Justice of the Peace recently conferred upon him. Likewise he congratulated the Town Clerk upon his appointment to such a high office. Also, they were honoured by the presence of Sir Harold Bowden, who had given a wonderful speech, Sir Albert Atkey, and Mr. Cassleton Elliott who was such a good friend of the Society and whom they looked upon not so much as a guest as one of themselves. He also spoke with pleasure of the presence of Mr. B. H. Wallis, Alderman H. Bowles, and others.

BISHOP TALBOT replied in a delightfully amusing speech. In serious vein, he said he was delighted on returning to this country from the Transvaal to find that accountants were so ready to render service as auditors to certain institutions and societies in an honorary capacity. He desired to express his very genuine gratitude for such professional services.

Mr. JOHN W. MEE, A.S.A.A., submitted the toast of "The Chairman," which was honoured with convincing warmth and heartiness.

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## Changes and Removals.

Messrs. George Mackeurtan, Son & Crosoer, 376, Smith Street, Durban, have taken into partnership Mr. A. R. Butcher, Incorporated Accountant. The name of the firm will be unchanged.

Messrs. Manley, Bright & Co., Incorporated Accountants, have removed their offices to 73, Basinghall Street, London, E.C.2.

Mr. W. E. Foden, Incorporated Accountant, has commenced to practise at 6, Nicholas Street, Manchester.

Messrs. McAuliffe, Davis & Hope announce that after an association extending over many years, Mr. A. H. Rand retired on December 31st, 1936, from partnership in their London and overseas firms.

Messrs. Hackett & Oliver, Incorporated Accountants, have removed their offices to Prudential Buildings, St. Philip's Place, Colmore Row, Birmingham.

Messrs. Harman Smith & Co., Incorporated Accountants, are now practising at County Chambers, Neals Corner, High Street, Hounslow.

Messrs. Tarmaster & Co., Incorporated Accountants, announce a change of address to Salisbury House, 3-1, Bankshall Street, Calcutta.

Mr. Cyril H. Temple intimates that the practices carried on by him in partnership with Mr. M. T. Amos, at 7 and 8, Norfolk Street, Strand, London, W.C.2, under the name of Temple, Gothard & Co., and in partnership with Mr. W. P. de la Haye at Richmond, under the style of Temple, de la Haye & Co., have been amalgamated. In addition, he has admitted into partnership Mr. J. T. Patterson, A.C.A., A.S.A.A., who has been associated with him for some time. The combined practice will be carried on at London and Richmond under the name of Temple, Gothard & Co., Incorporated Accountants, at the same addresses as hitherto.

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## DEPRECIATION RATES AND INCOME TAX.

### ELECTRICITY UNDERTAKINGS.

The Board of Inland Revenue intimate that as the result of representations by the Municipal Electrical Association and the Institute of Municipal Treasurers and Accountants, the Board have agreed that the existing rates of wear and tear allowances for domestic appliances hired out by electricity undertakings may be continued for a further period of five years up to and including 1940-41.

The Board also state that there have been no other alterations in relation to the list of agreed rates of depreciation since their letter of September 15th, 1936.

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Mr. Robert A. Kelly, C.M.G., Incorporated Accountant, has been appointed the Mining Member of the Legislative Council of the Gold Coast Colony. Mr. Kelly is Secretary to the Gold Coast Chamber of Mines.

## Incorporated Accountants' Students' Society of London and District.

### ANNUAL MEETING.

The annual general meeting of the Incorporated Accountants' Students' Society of London and District was held at Incorporated Accountants' Hall on February 23rd. The chair was occupied by the President, Mr. G. Roby Pridie, F.S.A.A., who, in moving the adoption of the report and accounts for the year 1936, said there was an increase of £83 12s. 9d. to the credit of revenue, against which there was the special contribution of 75 guineas voted at the last annual general meeting to the Sir James Martin Memorial Fund. The increase in the Secretary's honorarium and the clerical assistance had been more than set off by a decrease in the cost of publication of Transactions and of stationery, postages and sundry expenses. Continuing, Mr. Pridie said: Unfortunately, it has been found necessary to remove upwards of 100 names from the membership roll by reason of resignations, &c. This latter feature is causing the Committee some little concern as a distinct tendency has shown itself for students, so soon as they have passed their examinations and been admitted as members of the Parent Society, to withdraw from the Students' Society. This is, in my opinion, a great mistake, because it is after you have ceased your strenuous studies for the examinations that you have a greater opportunity of broadening your professional outlook by attending lectures on a variety of practical subjects which should be of very material advantage to you in your future practice. Incidentally I may say that I became a member of this Students' Society some 37 years ago, and have never since lost touch or failed to benefit by its activities. Our last session, I am told from many quarters, was one of the most successful of recent years, and in particular the practice meeting of a Pro-Forma Appeal before the Special Commissioners for Income Tax was not only of great intrinsic interest, but constituted a highly valuable demonstration to both senior and junior members of one of the many problems they may any day be called upon to face in the course of their professional careers.

At the close of the session we are opening to-night the Committee have arranged a similar demonstration of the procedure at a creditors' meeting in relation to the re-organisation of a limited company.

In the report you will notice that some eight of the student members have figured in the various honours lists during the past year, and of these six have also qualified for special prizes awarded by the Students' Society. To all of these members on behalf of the Committee I offer sincere congratulations, and trust that their success may be only the prelude to their future prosperity. I have much pleasure in moving the adoption of the report and accounts.

The motion was seconded by the Vice-President, Mr. H. E. Colesworthy, and carried unanimously.

### OFFICERS AND COMMITTEE.

Officers and Committee were appointed for the ensuing year, viz.:—President, Mr. G. Roby Pridie, F.S.A.A.; Vice-President, Mr. H. E. Colesworthy, F.S.A.A., F.C.A.; Committee: Mr. W. Strachan, F.S.A.A., Mr. S. T. Morris, F.S.A.A., Mr. A. A. Garrett, M.B.E., M.A., Mr. C. E. Wakeling, F.S.A.A., Mr. W. D. Menzies, F.S.A.A., Mr. F. R. Witty, A.S.A.A., Mr. E. J. Gamble, A.S.A.A., Mr. J. A. Allen, A.S.A.A., and Mr. B. W. Holman; Honorary Treasurer: Mr. Henry J. Burgess, F.S.A.A.;

Secretary: Mr. James C. Fay, A.C.I.S.; Honorary Auditor: Mr. W. G. Payne, F.S.A.A., F.C.A.

### Report.

The Committee have pleasure in presenting their forty-sixth annual report and accounts for the year ended December 31st, 1936.

### MEMBERSHIP.

During the past year 175 new members were elected, and at December 31st, 1936, the register contained the names of 1,908 members classified as under:

Ordinary Members	.. ..	1,387
Honorary Members:		
In Practice	.. ..	155
Not in Practice	.. ..	366
		<hr/> 1,908

### SIR JAMES MARTIN MEMORIAL FUND.

As a token of appreciation and in memory of the late Sir James Martin, it was unanimously resolved at the annual general meeting held on February 18th, 1936, that a grant of 75 guineas be voted to this fund.

### REVIEW OF THE YEAR'S WORK.

During the Spring and Autumn Sessions ten meetings were held, at all of which the attendances recorded were excellent, particularly at the closing meeting held on November 17th when, under the direction of Mr. J. H. Ellison, Mr. H. E. Seed, and Mr. K. Mines, a Pro Forma Appeal before the Special Commissioners of Income Tax was staged. The services of these gentlemen were greatly appreciated by an audience of over 200 members.

The Committee desire once again to express their appreciation and thanks to those members of the legal profession, representatives of the Press, and members of the Parent Society, whose names appear below, for their personal contributions to a very successful year.

### RECEPTION AND DANCE.

At the reception and dance held in November, the members and guests were received by the President, Mr. G. Roby Pridie, and the Vice-President, Mr. H. E. Colesworthy and Mrs. Colesworthy. The success of last year's function was repeated on this occasion.

### EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

The following members of the Society obtained Honours at the Parent Society's examinations during the year 1936:—

MAY—FINAL.—LAZARUS COORLAND, *Second Certificate of Merit.*

MAY—INTERMEDIATE.—DAN FRANCIS ROOKWOOD, *Sixth Place Certificate*; ALEXANDER PHILIP ISAAC GREENE, *Seventh Place Certificate.*

NOVEMBER—FINAL.—FRANCIS THOMAS RUSSELL, *Fourth Certificate of Merit.*

NOVEMBER—INTERMEDIATE.—FRED SCHOFIELD GRINDROD, *First Place Certificate*; HAROLD SHACKCLOTH, *Third Place Certificate*; ARTHUR HENRY LEWIS, *Fourth Place Certificate*; PERCIVAL ALBERT HOLLINGS, *Eighth Place Certificate.*

### PRIZE AWARDS.

In connection with the foregoing examinations, the following student members, who headed the list of honours granted by the Parent Society, were also awarded the Student Society prizes, viz.:—

Final Examinations:—

May, 1936. First Prize	L. COORLAND
Nov., 1936. First Prize	F. T. RUSSELL



## Intermediate Examinations :—

May, 1936.	First Prize	D. F. ROOKWOOD
	Second Prize	A. P. I. GREENE
Nov., 1936.	First Prize	F. S. GRINDROD
	Second Prize	H. SHACKCLOTH

## LECTURES AND DISCUSSIONS.

The Lectures and discussions held during the Spring and Autumn Sessions were as follows :—

## Spring, 1936—

- "Control Accounts in Relation to Costing." By Mr. WILLIAM STRACHAN, Incorporated Accountant.
- "Future of Gold Supply." By Mr. W. J. BUSSCHAU, Rhodes Scholar, Oxford.
- "Some Notes as to the Liability to Income Tax of Foreign Possessions." By Mr. J. H. ELLISON.
- "General Knowledge : The Questions on Company Practice." By Mr. W. J. BACK, Incorporated Accountant.
- "The Law Relating to Accounts in Insolvencies." By Mr. G. E. RADFORD, Incorporated Accountant.

## Autumn, 1936—

- "The Professional Man and the Distribution of Leisure Problems." By Mr. COLLIN BROOKS, M.C., Editor of the *Sunday Dispatch*.
- "General Knowledge : The Questions on Company Practice." (Second Lecture.) By Mr. W. J. BACK, Incorporated Accountant.
- "Could Insolvency Law and Practice be Simplified?" By Mr. D. MAHONY, Incorporated Accountant.
- "Pension and Staff Welfare Schemes." By Mr. H. SAMUELS, M.A., Barrister-at-Law.
- Pro Forma Appeal before the Special Commissioners of Income Tax. Arranged by Mr. J. H. ELLISON, Mr. H. E. SEED, and Mr. K. MINES.

## "TRANSACTIONS."

A permanent record of the Society's work, including full reports of lectures delivered during the Autumn Session of 1935 and the Spring Session of 1936, is available in the 40th volume of "Lectures and Transactions of the Incorporated Accountants' Students' Society of London and District." Copies are issued free to members on application.

A number of the lectures delivered to this Society and to District Societies throughout the country is published in the *Incorporated Accountants' Journal*, the official organ of the Society of Incorporated Accountants and Auditors, which also contains topical information on matters of professional importance.

## Syllabus of Lectures.

1937.

- Feb. 23rd. "Methods of Fraud and their Detection," by Mr. S. M. Caldwell, A.C.A. Chairman : Mr. H. E. Colesworthy, Vice-President.
- Mar. 4th. "Stock Exchange and Other Markets," by Mr. W. J. Back, Incorporated Accountant. Chairman : Mr. William Strachan, Incorporated Accountant.
- Mar. 9th. "The Beginner's Approach to the Study of Income Tax and Death Duties," by Mr. Terence Donovan, Barrister-at-Law. Chairman : Mr. S. T. Morris, Incorporated Accountant.
- Mar. 17th. "Capital Reconstruction of Limited Companies," by Mr. J. A. Allen. Chairman : Mr. G. Roby Pridie, President.

- Mar. 23rd. Pro-forma Meeting of Creditors in Voluntary Winding-up, arranged by Mr. D. Mahony, Incorporated Accountant, and Mr. R. J. Tothill, Incorporated Accountant.

The meetings are held at Incorporated Accountants' Hall, commencing at 6.15 p.m. precisely.

## FORTHCOMING EVENTS.

1937.

- Mar. 2nd. *Newcastle-upon-Tyne District Society.* At Middlesbrough, at 7 p.m. General Meeting of Members.  
*Nottingham, Derby and Lincoln District Society.* At Nottingham, at 6.30 p.m. Lecture by Mr. A. Radford, B.Sc., on "Questions on Economics."
- Mar. 3rd. *North Lancashire District Society.* At Preston, at 7.30 p.m. Lecture by Mr. A. Lester Boddington, F.S.S., on "Statistics."
- South Wales and Monmouthshire District Society.* At Newport. Lecture by Mr. Ivor Davies, A.S.A.A., on "Fraud in Accounts."
- Mar. 4th. *Belfast District Society.* At Belfast, at 1 p.m. Luncheon. Address by Sir E. Herdman, Chairman of the Belfast Harbour Commissioners.  
*Burnley Students' Section.* At Burnley, at 7.30 p.m. Lecture by Mr. N. Broadbent, F.S.A.A., on "The Report of the Income Tax Codification Committee and Comments thereon."
- Liverpool District Society.* At Liverpool, at 6.15 p.m. Lecture by Mr. A. Lester Boddington, F.S.S., on "Business Statistics."
- Mar. 4th. *London Students' Society.* At Incorporated Accountants' Hall at 6.15 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Stock Exchange and other Markets."
- South of England District Society.* At Southampton, at 7.15 p.m. Lecture by Mr. J. Linahan, A.S.A.A., on "Partnership Accounts."
- Mar. 5th. *Birmingham District Society.* At Birmingham, at 6.30 p.m. Lecture by Mr. H. R. King, Inspector of Taxes, on "Income Tax."
- Manchester District Society.* At Manchester, at 6.15 p.m. Lecture by Mr. A. Lester Boddington, F.S.S., on "Statistics."
- North Staffordshire District Society.* At Stoke-on-Trent. Annual Dinner.
- South of England District Society.* Bournemouth Section. At Bournemouth, at 7.15 p.m. Lecture by Mr. J. Linahan, A.S.A.A., on "Partnership Accounts."
- Mar. 9th. *London Students' Society.* At Incorporated Accountants' Hall at 6.15 p.m. Lecture by Mr. Terence Donovan, Barrister-at-Law, on "The Beginner's Approach to the Study of Income Tax and Death Duties."
- Yorkshire District Society.* At Leeds, at 6.30 p.m. Lecture by Mr. W. W. Bigg, F.C.A., F.S.A.A., on "Costing Records and the Financial Books."
- Mar. 10th. *Belfast District Society.* At Belfast, at 7.30 p.m. Lecture by Mr. H. McMillan, A.S.A.A., on "Income Tax." Students' Meeting.

- Mar. 10th. *Dublin Students' Society.* At Dublin, at 5.45 p.m. Lecture by Mr. W. V. Butler, B.L., on "Company Law."
- Sheffield District Society.* At Sheffield, at 6.30 p.m. Lecture by Mr. W. W. Bigg, F.C.A., F.S.A.A., on "Cost Accounts."
- South Wales and Monmouthshire District Society.* At Cardiff. Papers by Mr. H. K. Forster and Mr. A. E. Bradnum on "Compulsory Liquidation" and "The Law of Agency" respectively. Students' Meeting.
- Mar. 11th. *Liverpool District Society.* At Chester, at 6.45 p.m. Lecture by Mr. Ernest E. Edwards, B.A., LL.B., on "Company Reconstructions and Amalgamations."
- Newcastle-upon-Tyne District Society.* At Newcastle, at 6.30 p.m. Lecture by Mr. G. Lambert, A.S.A.A., on "Executorship Accounts."
- Mar. 12th. *Birmingham District Society.* At Birmingham, at 6.30 p.m. Lecture by Mr. Hargreaves Parkinson on "Disclosure on Public Accounts."
- Cumberland and Westmorland District Society.* At Carlisle. Lecture by Mr. Charles M. Dolby, F.S.A.A., on "The Internal Organisation of an Accountant's Office."
- Hull District Society.* At Hull, at 7.15 p.m. Lecture by Mr. A. S. Wade on "Currency Control."
- Manchester District Society.* At Manchester, at 6.15 p.m. Students' Annual Meeting.
- Mar. 15th. *Sheffield District Society.* At Sheffield, at 6.30 p.m. Lecture by Professor John Hilton on "The Secret of Unemployment."
- Mar. 16th. *Devon and Cornwall District Society.* At Plymouth, at 6.30 p.m. Lecture by Mr. L. B. Barford, Inspector of Taxes, on "Income Tax in Relation to Partnership."
- Mar. 17th. *London Students' Society.* At Incorporated Accountants' Hall at 6.15 p.m. Lecture by Mr. J. A. Allen, on "Capital Reconstruction of Limited Companies."
- Mar. 18th. *Liverpool District Society.* At Liverpool, at 6.15 p.m. Discussion on Professional Topics.
- Nottingham, Derby and Lincoln District Society.* At Nottingham, at 6.30 p.m. Mock Company Meeting.
- Mar. 19th. *East Anglian District Society.* At Norwich, at 7.30 p.m. Ten-minute Papers by Members and Students.
- Hull District Society.* At Hull. Social Evening.
- London and District Society.* At Incorporated Accountants' Hall, at 8.30 p.m. Reception and Dance.
- Manchester and District Society.* At Manchester. Annual Dinner.
- Swansea and South-West Wales District Society.* At Swansea, at 6.30 p.m. Short Papers by Student Members.
- South Wales and Monmouthshire District Society.* At Newport. Lecture by Mr. Noel Cliffe, A.S.A.A., on "Statistics." Students' Meeting.
- Mar. 20th. *Yorkshire District Society.* At Leeds, at 6.30 p.m. Lecture by Captain J. E. Stone, F.S.A.A., on "Hospital Accounts and Financial Administration."
- Mar. 22nd. *Newcastle-upon-Tyne District Society.* At Newcastle, at 6.30 p.m. Lecture by Mr. G. Lambert, A.S.A.A., on "Executorship Accounts."
- Mar. 23rd. *London Students' Society.* At Incorporated Accountants' Hall at 6.15 p.m. Pro-forma Meeting of Creditors in Voluntary Winding-up, arranged by Mr. D. Mahony, F.S.A.A., and Mr. R. J. Tothill, A.S.A.A.
- Mar. 24th. *South of England District Society.* Bournemouth Section. At Bournemouth, at 7.15 p.m. Lecture by Mr. E. Westby-Nunn, B.A., LL.B., on "Mercantile Law."
- Mar. 25th. *South of England District Society.* At Southampton, at 7.15 p.m. Lecture by Mr. E. Westby-Nunn, B.A., LL.B., on "Mercantile Law."
- Mar. 29th. *Newcastle-upon-Tyne District Society.* At Newcastle, at 6.30 p.m. Qualified Members' Meeting.
- Mar. 31st. *Dublin Students' Society.* At Dublin, at 5.45 p.m. Annual General Meeting and Social Meeting.

## Correspondence.

### Number of Executors.

To the Editors, *Incorporated Accountants' Journal.*

SIRS,—In the January issue of the *Journal* there appeared among the "Notes on Legal Cases" a report of the case in the *Estate of Holland, deceased* (1936).

The question before the Court was whether the executor's oath, which was refused in the Registry on the ground of being in contravention of sect. 160 (1) of the Supreme Court of Judicature (Consolidation) Act, 1925, should have been accepted.

The will appointed four general executors and a fifth literary executor to deal exclusively with specific papers, and it was held that the oath of the four general executors must be refused as the making of grants to five executors would be contrary to the provisions of the above-mentioned section, which provides that probate or administration shall not be granted to more than four persons in respect of the same property.

Does not "in respect of the same property" mean, however, in respect of any one specific portion of an estate and not in respect of the estate itself?

I have always understood that any number of executors could be appointed in respect of one estate, but as regards any particular property contained in that estate, not more than four executors could be appointed.

I should be grateful if any reader could offer an opinion on this matter.

Yours faithfully,

A STUDENT.

February, 1937.

[A testator may appoint any number of executors: but probate may not be granted to more than four persons in respect of the same property—Judicature Act, 1925, sect. 160 (1). If there are more than four executors who have not renounced and are competent to take probate, the grant will bear a notation that power is reserved to the other executors to apply on vacancies occurring. I think the answer to your question is in the affirmative.—LEGAL ED., I.A.J.]

**Shakespeare and Accountancy.**

To the Editors, *Incorporated Accountants' Journal*.

Sms,—Upon a rather belated reading of the January number of the *Journal* I observe that on page 127 Sir George Stuart Robertson is reported to have said that he could find no allusions, in Shakespeare, to accountancy.

Lest it should be thought that the profession has no antiquity, I venture to draw attention to three passages which have apparent reference to accountancy (when taken from their context)!

1. These words, groaned out by Wolsey, might easily be uttered by some disconsolate student staggering from the Examination Hall after a three-hour paper:

"... This paper has undone me! 'Tis the account(s) . . . ."—*Henry VIII, Act III, Sc. II.*

2. The scene changes: many years later the same student—now an old man—receives a notification that he has at last satisfied the examiners. Upon recovering from his swoon he says, with another old man—Prospero:

"... And, deeper than did ever plummet sound, I'll drown my book(s)."—*Tempest, Act V, Sc. I.*

3. The final quotation is apparently the *fons et origo* of auditing! Probably some legislator, sipping his coffee, overheard a company director say, with Lady Macbeth:

"... What need we fear who knows it, when none can call our power to account? . . . ."—*Macbeth, Act V, Sc. I.*

I am no great student of Shakespeare, but I feel sure there must be many such passages in his works.

Yours faithfully,

A. H. HORROCKS, A.S.A.A.

Brooklands, Cheshire.

February, 1937.

**NATIONAL SAVINGS SCHEMES.**

Every employer is concerned with the problem of the

Letter referred to in Professional Notes  
accidentally omitted.

**Income Tax (Consequential Loss Insurance).**

To the Editors, *Incorporated Accountants' Journal*.

Sms,—Owing to the decision of the Privy Council, premiums for Consequential Loss Insurance must now be brought into charge against profits, receipts from claims being brought in as revenue.

A case has arisen in my office where the Inspector of Taxes has suggested allowing premiums for the last six years, but in this particular instance the tax-payer had a rather heavy claim about three years ago.

Your views would be much appreciated as to whether the decision of the Privy Council is retrospective and adjustments *must* be made in respect of prior years, both as regards premiums and claims.

It may be added that although the Inspector of Taxes has offered allowance in respect of the last six years for premiums paid, he has made no reference, at the moment, to the substantial claim of three years ago.

Yours faithfully,

ARCH. BROWN.

Birmingham, February, 1937.

for the year 1935 erroneously appeared in place of those for the year 1936. We repeat the advertisement this month with the correct figures, viz., those of 1936, substituted. We regret the error, which occurred through a confusion of two stereos by the printers.

**District Societies of Incorporated Accountants.****LIVERPOOL.****Syllabus of Students' Revision Classes, 1937.**

- Feb. 17th.—"Examination Tactics," by Mr. C. E. J. Whalley, A.S.A.A., at 5.30 p.m.
- Feb. 19th.—"Income Tax: Wear and Tear and Obsolescence, &c.," by Mr. C. Dudley Thayer, A.S.A.A., at 5.30 p.m.
- Feb. 24th.—"Partnership Accounts," by Mr. E. Satterthwaite, A.S.A.A., at 5.30 p.m.
- Feb. 26th.—"Auditing Technique," by Mr. R. R. Coomber, B.Sc. (Econ.), A.C.A., A.S.A.A., at 6.15 p.m.
- Mar. 3rd.—"Executors Law," by Mr. W. R. Booth, A.S.A.A., at 5.30 p.m.
- Mar. 5th.—"Income Tax Claims," by Mr. S. Woodyer, F.S.A.A., F.C.A., at 5.30 p.m.
- Mar. 10th.—"Economics," by Mr. M. J. McRobert, A.S.A.A., at 5.30 p.m.
- Mar. 12th.—"The Law of Contracts and Agency," by Mr. W. G. Caldwell, LL.B., A.S.A.A., at 5.30 p.m.
- "Auditing," by Mr. R. H. Barber, A.S.A.A., at 6.30 p.m.
- Mar. 17th.—"Economics," by Mr. M. J. McRobert, A.S.A.A., at 5.30 p.m.
- "Company Liquidations and Receiverships," by Mr. John Airey, J.P., F.S.A.A., at 6.30 p.m.
- Mar. 19th.—"Bills of Exchange and Cheques," by Mr. W. G. Caldwell, LL.B., A.S.A.A., at 5.30 p.m.
- "Auditing," by Mr. R. H. Barber, A.S.A.A., at 6.30 p.m.
- Mar. 24th.—"Executors Accounts," by Mr. W. R. Booth, A.S.A.A., at 5.30 p.m.
- Mar. 31st.—"The Markets," by Mr. F. W. Irving, A.S.A.A., at the Exchange News Room (Exchange Flags), at 5.30 p.m.
- Apr. 2nd.—"Bankruptcy," by Mr. N. C. R. Fleming, A.S.A.A., at 5.30 p.m.
- "Accounts: Depreciation of Funds, &c.," by Mr. J. Sloan, A.S.A.A., at 6.30 p.m.
- Apr. 7th.—"Stock Exchange: Financial News," by Mr. F. W. Irving, A.S.A.A., at 5.30 p.m.
- Apr. 9th.—"Deeds of Arrangement," by Mr. N. C. R. Fleming, A.S.A.A., at 5.30 p.m.
- "Accounts: Special Forms," by Mr. J. Sloan, A.S.A.A., at 6.30 p.m.
- Apr. 14th.—"Sur-Tax," by Mr. W. R. Booth, A.S.A.A., at 5.30 p.m.
- Apr. 16th.—"Cost Accounts in General," by Mr. Patrick Taggart, F.S.A.A., at 5.30 p.m.
- Apr. 21st.—"Building Society Accounts," by Mr. T. H. McDowell, A.S.A.A., at 5.30 p.m.
- "Economics," by Mr. J. J. Parkes, A.S.A.A., at 6.30 p.m.



Apr. 23rd.—“Cost Accounts and Financial Records,” by Mr. Patrick Taggart, F.S.A.A., at 5.30 p.m.

Apr. 28th.—“Company Law,” by Mr. F. W. Irving, A.S.A.A., at 5.30 p.m.

“Statistics,” by Mr. J. J. Parkes, A.S.A.A., at 6.30 p.m.

Unless otherwise stated, meetings will be held at the Liverpool Incorporated Accountants' Hall, 25, Fenwick Street, Liverpool, 2.

### NEWCASTLE-UPON-TYNE.

At a committee meeting of the Incorporated Accountants' Newcastle-upon-Tyne and District Society, the senior Vice-President paid tribute to the very valuable services rendered to the Society by the late Mr. M. H. Groves, after which Mr. C. Percy Barrowcliff, of Middlesbrough, was unanimously elected President.

Mr. T. W. Scollick, Newcastle, and Mr. A. J. Ingram, Sunderland, were elected Vice-Presidents.

### SOUTH WALES AND MONMOUTHSHIRE.

(STUDENTS' SECTION.)

The annual joint debate between the Newport and Cardiff Students' Societies was held at Newport on February 3rd, the subject being “That the State interferes too much with the individual.” In the unavoidable absence of Mr. Snelgrove (the Newport Chairman), Mr. R. R. Davies, A.S.A.A., Cardiff, occupied the chair.

Mr. Vernon G. Fradd (Cardiff), in proposing the motion, referred to the many governmental departments, authorities, and ministries which in his opinion unjustifiably interfered with the life of the individual, and said that the inordinate growth of bureaucracy which had produced these devices was threatening that standard of life of which we were so proud. He pointed out that resentment against aimless and unnecessary restrictions made people commit crimes they would not otherwise think about, and instanced the failure of Prohibition to solve the drink problem in America. The fall of Rome and the ruin of the Chinese Empire he attributed to interference of the State, and added that dictatorships were tolerated only when men's sense of dignity and the rights of the individual had been weakened. He claimed that laws were unnecessary when the character of the citizen was sound, giving examples of the moralisings of Kant, Spencer, and Plato in support of his assertion. However great a diversity of opinion there might be among the great philosophers and psychologists of history regarding other propositions, they were all unanimous in believing that the salvation of society lay in the recognition of the free and unfettered rights of the individual.

Mr. W. W. Stanley (Newport), opposing the motion, enumerated the chief ways in which the State interfered with individuals: by Acts restricting their rights, by the control of certain monopolies, by taxation, tariffs, and the assistance and organisation of certain industries. He claimed that in each case the State was justified, because its intervention had either been for the benefit of society as a whole or had assisted certain industries and thus enhanced the productive capacity of the nation. It was necessary that competition should be restricted when it became a danger to society, and State intervention had eliminated unfair competition between employers and employed, and between producers and consumers, by means of such measures as Factory Acts, Truck Acts, and Food and Drug Acts.

A number of members spoke in the discussion which followed. It was stated that although the idea of the Milk Board was good, in practice it could never be successfully applied. The expenses of managing such a scheme were out of all proportion to the benefits derived—one member gave an instance of a high official drawing a salary of £9,000 a year—and the ultimate effect was that the efficient farmers were paying to keep the inefficient ones in business. Another speaker said that there was a case of a tramp shipping company, which had been given a subsidy, actually paying dividends. While some of those present deplored that qualities of leadership were suppressed by State interference, others regarded such suppression as essential.

Upon a vote being taken the meeting was shown to be equally divided, and the proceedings were concluded with a vote of thanks to the two leaders.

### THE ECONOMIC OUTLOOK.

Following an extensive analysis of the present industrial position, the Half-yearly Banking and Commercial Review presented with *The Statist* last month concludes that the domestic boom is still well established, and that, with the incidence of rearmament demand spread over the next few years, a continuation of active and profitable conditions in industry should be ensured. The view is expressed that our main concern should not be connected with the question of upholding the activity and profitability of economic enterprise, but with the prevention of excessive activity and profit inflation. With a defence programme of £1,500 million, to be spread over the next five years, it is considered that serious dangers of over-expansion will be met, and that the next five years will, in fact, provide a first-class test of industrial organisation as it is known in this country. The abnormal and artificial stimulation of industrial activity that will be compressed into a short period must carry with it the risk of a subsequent reaction. The plans and policy that should be devised to avoid or at least mitigate that reaction should aim in the first place at preventing any undue inflationary developments following the imposition of the defence programme over and above the boom conditions that are already apparent in the economic situation. Qualitative control of credit is required, and the machinery for it which is now virtually non-existent should immediately be established. It is advocated, too, that the Government should immediately reconstruct its public-works policy in the light of the defence programme. This should be done with the objective of retaining an adequate margin of desirable capital works in hand to be launched when the activity under the defence programme shows signs of slackening.

### Scottish Notes.

(FROM OUR CORRESPONDENT.)

#### Meeting of Scottish Council.

A meeting of the Council of the Scottish Branch was held in Glasgow on January 29th. There were present Mr. Robert T. Dunlop, President of the Branch; Mr. D. R. Matheson, M.A., LL.B., Edinburgh; Mr. E. Mortimer Brodie, Port Glasgow; Mr. W. Davidson Hall, Mr. P. G. S. Ritchie, Mr. E. Hall Wight, and Mr. Robert Fraser.

Glasgow; Mr. W. J. Wood, Perth; and Mr. James Paterson, Secretary of the Branch.

Apologies for absence were intimated from Mr. Walter MacGregor, Mr. J. Stewart Seggie, Mr. Alex. Davidson, Mr. Wm. Houston, Mr. W. Hill Jack, Mr. D. M. Muir, Mr. J. T. Morrison, Mr. W. L. Pattullo, and Mr. Festus Moffat.

A donation from Mr. Walter MacGregor, F.S.A.A., Edinburgh, for books for the Library, was intimated, and Mr. MacGregor was cordially thanked for his continued generous interest in this branch of the Society's work.

Reports were given by the Secretary of the Students' Societies connected with the Branch. Regarding the Glasgow Students' Society tutorial lectures were being given by Mr. Donald A. S. McLeish, M.A., LL.B., Glasgow, and the attendances had been very satisfactory. A further series of lectures had been arranged to be given by Mr. Frederick D. Greenhill, C.A., Glasgow, the subjects being *Executry and Trust Accounts and Auditing*.

The Chairman reported on a number of matters affecting Scottish interests, including several which had been dealt with by the London Council. Other items relating to the interests of members in Scotland were considered and variously dealt with.

#### Glasgow Students' Society.

The fourth lecture to examination candidates on some aspects of Scots Law was given on the 17th ult. by Mr. Donald A. S. McLeish, M.A., LL.B., Glasgow, on the "Law of Trusts and Executries." Mr. W. Davidson Hall, F.S.A.A., presided over a large attendance. Apologies for absence were intimated from Mr. R. T. Dunlop, President of the Branch, and from Mr. James A. Mowat. The lecturer treated the subject very fully, keeping in view the scope of the Society's examinations.

At the close of the lecture a number of questions were asked and replied to by the lecturer. In moving a vote of thanks to Mr. McLeish, Mr. James Paterson said the Students' Society was greatly indebted to Mr. McLeish for the very painstaking manner in which he had treated the subject, and for his courtesy in replying very fully to questions of the candidates. The lecture should prove of great assistance to the students in their studies for the examinations. In acknowledging the vote of thanks, Mr. McLeish said that it had given him great pleasure to prepare and deliver these lectures, and he would be glad to be of assistance again to the Students' Society if possible.

Mr. Paterson intimated that he had arranged for a course of four tutorial lectures to articled clerks and other candidates, to be given by Mr. Frederick D. Greenhill, C.A., on "Executries and Trust Accounts" and on "Auditing." The first of these lectures would be given soon.

#### The Late Mr. George Mollison, Aberdeen.

We regret to report the death of Mr. George Mollison, Incorporated Accountant, Aberdeen, which took place on December 13th last. Mr. Mollison was one of the early members of the Scottish Institute branch of the Society, and had therefore been a member of that branch for over 40 years. He had a long connection with the North of Scotland Canadian Mortgage Company, Ltd., of which he was secretary, and took a warm interest in the work of the Scottish Branch, especially in the Aberdeen district. Probate of Mr. Mollison's will has been published showing an estate of £37,803.

#### Councillor's Expenses: Scottish Protest.

A ratepayer in Lanarkshire having protested to the Auditor, Sir David Allan Hay, C.A., against payments

to County Councillors in excess of the amount allowed by Statute, in respect of losses alleged to be sustained by them while prosecuting their duties as Councillors, a report by the Auditor to the County Council was dealt with at a recent meeting of that body.

Sir David's comment on the protest by the ratepayer was that he was of opinion that the payments made to members of the County Council in the year to May, 1936, and objected to by the ratepayer in respect of (1) "other personal expenses necessarily incurred," and (2) "time necessarily lost from ordinary employment," were, in principle, contrary to law, and should be disallowed.

The Clerk of the Council has been in communication with the Secretary of State for Scotland on the subject, and his decision is awaited.

#### Decay of Country Trade and Bad Book-keeping.

A Special Correspondent of the *Glasgow Herald* last month, in a very informative and critical review of trade in country districts in Scotland, has a good deal to say as to the want of business methods on the part of small traders. In his opinion, the depression and change in country business life had been partly caused by the competition of motor cars, buses and lorries. These had killed many small businesses, and the decay of our rural population had killed others, which were left, as it were, stranded without customers; but many shops, many trades and many country businesses had killed themselves because their owners were ignorant of the first principles of business. Small business men let bad debts accumulate; they estimated for jobs without knowing whether they were going to make or lose on them; and they kept their books in such disorder that the Income Tax Authorities collected more than was just. Village shopkeepers, by bad book-keeping, failed to persuade Income Tax Commissioners of their position; they failed to have any visible record of their trade.

This writer says that bad buying, timidity in collecting debts, and slipshod book-keeping methods provide reasons why many a country shop is closed which was moderately successful only a few years ago. Country business methods had stood still at a level which was sufficient in the past when competition was less keen and the methods of distribution from large centres less convenient and well organised.

The writer of the article considers that the countryman who trades or manufactures is probably more efficient than his father, but has not improved his methods rapidly enough, and he strongly urges better costing methods and better book-keeping.

## Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g., (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases (Scotland)*; S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate,

Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., Probate, Divorce and Admiralty.]

### BILLS OF EXCHANGE.

#### Carpenters Company of the City of London v. British Mutual Banking Company, Limited.

##### *Forged Endorsements.*

The clerk of a City company over a long period of years obtained from the company crossed cheques drawn on the company's banking account with the defendant bank in payment or purported payment of invoices for goods supplied or work done for the company by the payees. He then forged endorsements on the cheques, and paid them into his own account at the same branch of the bank.

It was held (1) that the defendants had been negligent in paying without inquiry the company's cheques into the private account of a person known to them to be an employee of the company, and that they could not, therefore, rely on sect. 82 of the Bills of Exchange Act, 1882. (2) That sect. 19 of the Stamp Act, 1853, had not been rendered inapplicable to bills of exchange by sect. 60 of the Act of 1882, and that the defendants were entitled to rely on sect. 19 if they could bring themselves within it. (3) That the words "in the ordinary course of business" in sect. 60 of the Act of 1882, had a different meaning from the words "in good faith and without negligence" in sect. 82, and that the negligence of the defendants did not prevent their handling of the cheques (which by endorsement had apparently become "bearer" cheques) by payment according to their tenor to the account of the bearer from being "in the ordinary course of business." (4) That the defendants did not lose their protection under sect. 19 of the Stamp Act, 1853, or sect. 60 of the Bills of Exchange Act, 1882, by reason of the provisions of sect. 79 (2) of the Act of 1882 with regard to crossed cheques, although the bank to which payment was made was the same as the paying bank.

(K.B.; (1937) 53 T.L.R., 270.)

### INSOLVENCY.

#### In re a Debtor, No. 627 of 1936.

##### *Married Woman.*

By sect. 1 (d) of the Law Reform (Married Women and Tortfeasors) Act, 1935, a married woman was made amenable to the bankruptcy law as if she were a *feme sole*. By sect. 4 (1) (c) no judgment was to be enforced against a married woman by bankruptcy proceedings if obtained in respect of a contract entered into before the passing of the Act (August 2nd, 1935).

Before that date the petitioning creditor had, at the debtor's request, guaranteed her bank account. After that date the petitioning creditor paid a sum of money to the bank under the guarantee, recovered judgment against the debtor for the amount so paid, and presented a bankruptcy petition against her founded on the judgment.

It was held that the obligation of the debtor to repay to the petitioning creditor the amount paid under the guarantee was an obligation incurred at the date when the guarantee was given. As that date was before the passing of the Act the judgment could not be enforced in bankruptcy.

(C.A.; (1937) 53 T.L.R., 191.)

### REVENUE.

#### Attorney-General v. Cohen.

##### *Conveyance on Sale.*

A bidder at an auction sale of dwelling houses bought six separate lots, all consisting of houses in the same street belonging to the same vendor. The properties were

conveyed to the purchaser by six separate conveyances. The price of four of the properties was less than £500 each.

It was held by the Court of Appeal, affirming the decision of Lawrence (J.) (see *Incorporated Accountants' Journal*, August, 1936, p. 436), that to constitute a "series of transactions" within the meaning of sect. 73 of the Finance (1909-10) Act, 1910, there must be some interdependence between the transactions; that there was no evidence in this case of any circumstances known to the vendor and purchaser connecting the various lots and making the bid for one lot dependent on the bids for the others; that the facts that the parties in respect of each lot were the same, that the times of bidding were close together, and that the properties were in the same street were casual matters not rendering the transactions a "series" within the meaning of the section; and that the stamp duty payable on the four conveyances was, therefore, at the rate in force before the passing of the Act of 1910.

(C.A.; (1937) 53 T.L.R., 214.)

#### Hughes v. Bank of New Zealand.

##### *Non-resident.*

The respondent bank, registered and resident in New Zealand, had a branch office in London, and was assessed to income tax under Schedule D in respect of the profits of the trade carried on at its London branch. Among the receipts of the London branch for the year in question were (a) interest on 5 per cent. War Loan, £75,621; (b) interest on Government of India 3 per cent. stock, £1,500; (c) interest on Grand Trunk Pacific Railway bonds, £412; and (d) interest on Auckland Electric Power Board bonds, £1,023.

It was held (1) that on the construction of sect. 46 of the Income Tax Act, 1918, the 5 per cent. War Loan, being in the beneficial ownership of the Bank of New Zealand, which was not ordinarily resident in the United Kingdom, was exempt from tax under that section. Sect. 46 definitely excluded such interest from all taxation, and it could not be taxed under Schedule D as part of the profits of a trade carried on in this country by the London branch. (2) That the interest on the 3 per cent. Government of India stock was exempt from tax under Schedule C, rule 2 (d). (3) That the interest on the bonds of the two Colonial companies was also exempt from taxation, because rule 7 of the Miscellaneous Rules applicable to Schedule D incorporated Schedule C, including rule 2 (d) of the General Rules under that Schedule, and such interest could not be taxed under Schedule D. (4) That there was no ground for holding that the expenses incurred by the bank in acquiring the securities which were exempt from taxation should be excluded from the expenses of the trade in computing the amount of profits or gains to be charged to tax under Schedule D.

(C.A.; (1937) 53 T.L.R., 258.)

#### John Emery & Sons v. Inland Revenue Commissioners.

##### *Profits and Gains.*

A firm of builders carried on the business of purchasing vacant land, on which they built houses and then sold portions of the land with houses thereon. As purchase price of each house with its portion of land they demanded and received a sum of money and a "ground annual," i.e., a perpetual annuity of a fixed sum secured upon the house and ground. Ground annuals have at any given date an ascertainable value in cash, which is estimated at seventeen years' purchase.

It was held by the House of Lords that the realisable value of ground annuals created during the builders' financial year must be included among their profits and gains for that year, and were chargeable to income tax under Schedule D.

(H.L.; (1937) A.C., 91.)